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INTRODUCTION

My name is John L. Clark. I am founder, Chairman, and Chief Executive Officer of CTC Distribution Services, L.L.C. ("CTC"). CTC began operations in 1982 in the city of Minneapolis, Minnesota. Since that time, CTC has grown to become the largest shipper of small parcels to the residences of individual consumers in the United States for the direct marketing industry.

CTC serves the direct marketing community by developing and managing distribution programs designed to deliver small parcels in a timely and cost-effective manner. Its core process is the consolidation of parcels at its nine operating hubs. This process involves the documentation, collection, sortation, and transportation of parcels to shipping facilities close to the package's final destination. Final delivery is made by a parcel delivery company.

The company's principal customers sell goods through catalogs, infomercials, home shopping networks, direct mail, and the internet, and require a cost-effective means of shipping these goods to consumers. CTC offers its clients a number of shipping alternatives, and is a user of prominent shipping companies such as the U.S. Postal Service ("Postal Service") and United Parcel Service ("UPS"), as well as local and regional carriers, for the final delivery of its shipments. CTC, therefore, is very

1 familiar with the various competitive offerings available to small parcel
2 shippers from leading parcel delivery companies.

3 During the period from 1982 through 1991, CTC relied almost
4 exclusively on UPS for the final delivery of its shipments. After careful
5 analysis of the Postal Service's shipping rates — particularly the destination
6 entry discounts which became effective in 1991 — CTC began offering Postal
7 Service delivery, as well as UPS delivery, for a final delivery option to its
8 clients. By 1993, almost all of CTC's business had migrated to the Postal
9 Service. CTC is a heavy user of Destination Bulk Mail Center rates, and its
10 business has grown rapidly while utilizing DBMC entry rates.

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I. PURPOSE OF TESTIMONY

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The purpose of this testimony is to support, and urge the Postal Rate Commission to recommend, the Postal Service's proposals which relate to the entry of parcels at Origin Bulk Mail Centers, Destination Bulk Mail Centers ("DBMCs"), Destination Sectional Center Facilities ("DSCFs"), and Destination Delivery Units ("DDUs").

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II. THE DYNAMIC MARKETPLACE

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The economy of the United States has experienced a long period of growth and prosperity, with a particularly sustained surge in the 1990's. The standard of living for the average American is said to be the highest in history. Certainly, much of the credit for this prosperity must be given to our free enterprise system.

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While our free enterprise system is both vast and complex, the network of transportation and distribution providers which deliver goods and services to our homes and businesses is certainly an essential ingredient. This network is an element of the economy which typically is overlooked and perhaps underappreciated because it works so efficiently. Credit for a certain degree of this efficiency can be given to the release of competitive forces which took place in 1980 with the de-regulation of trucking. Since

1 that time, rates are no longer set by bureaus, nor are service territories
2 limited and defined by the Interstate Commerce Commission. Freedom to
3 enter the market and compete has resulted in more alternatives for shippers,
4 lower costs and improved service.

5 Although the circumstances in this case are not identical to those
6 involved in deregulation of the trucking industry, there are parallels between
7 the philosophy underlying such deregulation and the thought behind the
8 Postal Service's proposals affecting parcel post in this case. Both focus on
9 increasing competition. Clearly, in the case of deregulation of the trucking
10 industry, that philosophy was sound. I believe that increasing competition is
11 also a sound philosophy with respect to parcels. This testimony will
12 demonstrate that small parcel shippers will benefit from the increased
13 competitiveness in the marketplace which would be created by the Postal
14 Service's initiatives. We all need to recognize that the delivery of small
15 parcels is one segment of our nation's economy which will benefit from more
16 competitors. The marketplace for small parcel shipping has had too little
17 competition. Establishing the Postal Service as a major parcel handler is
18 good public policy.

1 **III. THE CHANGING NATURE OF PRODUCT DISTRIBUTION**

2 The rapidly declining cost of technology has facilitated the ability of
3 American businesses to eliminate many costs from their operations.
4 Application of technology to inventory management, transportation and
5 distribution is focused under the umbrella of the science of logistics. The
6 essential application of this science, as it relates to the matter at hand, is to
7 achieve customer satisfaction by delivering products in a timely and cost-
8 effective manner. This entails coordination of inventory purchase and
9 receipt, marketing efforts, order acceptance, fulfillment, and finally,
10 shipment to the consumer. The spreading embrace of the just-in-time
11 inventory concept has added to a growing reliance on small parcel shipping.
12 Competitive companies, whether large or small, can no longer afford to tie up
13 precious capital to finance large inventory stockpiles.

14 In the past, product distribution involved long manufacturing times,
15 followed by warehoused stockpiles marketed by wholesalers, and finally
16 delivery to the consumer through a retail outlet.

17 Through the application of modern technology, this supply chain is
18 undergoing significant changes. The channels of distribution are being
19 dramatically modified to eliminate costly intermediate events between
20 manufacturer and final user. This is most vividly demonstrated in the arena

1 of direct marketing, a merchandising concept driven by the economical
2 delivery of messages and product to the final user.

3 Did the American consumer demand the ability to shop in the
4 convenience of his/her own home through a catalog, direct mailing or some
5 type of other media such as a television infomercial or internet connection?
6 And then, did industry respond with all of the sophisticated methods used
7 today to satisfy that demand? Or was it the other way around? Did
8 entrepreneurs develop today's modern communication, pricing and
9 presentation concepts, and did the American consumer respond to build a
10 dynamic direct marketing industry? While these questions could provide the
11 basis for an interesting debate, there would be immediate agreement that
12 neither the consumer nor the seller could be satisfied without a cost-effective
13 method of delivering both the message and the response to the message —
14 which is, in many cases, a small parcel containing a purchased product.

15 IV. THE CHANGING CHARACTER OF THE 16 PARCEL DELIVERY NETWORK

17 The year 1982 does not seem to be that long ago. In that first year of
18 CTC's operation, the nationwide single-source delivery of small parcels was
19 limited to two choices: UPS and the Postal Service. While CTC used the
20 Postal Service for certain specific applications, UPS was really the only cost-
21 effective supplier of nationwide small parcel delivery. In 1982, no difference

1 existed between residential and commercial delivery rates, and there were no
2 discounts from published rates available from UPS to anyone.

3 In 1982, the revenue of Federal Express ("FedEx") was \$0.8 billion; in
4 1996, it was \$10.2 billion. Calibre Systems ("RPS") did not exist until 1985,
5 but in 1996 produced \$1.3 billion in gross revenue. Airborne Express grew
6 from \$0.3 billion to \$2.5 billion during the same time period. In 1982, UPS
7 had gross revenue of \$5.2 billion, and has increased that to \$22.4 billion in
8 1996. Comparable numbers for the Postal Service would show that the
9 combination of Express Mail, Priority Mail and Standard B Mail grew from
10 \$1.9 billion in 1982 to \$5.7 billion in 1996. The parcel post component of
11 these numbers is \$0.4 billion in 1982 and \$0.7 billion in 1996. The Priority
12 Mail component of these numbers is \$0.8 billion in 1982 and \$3.3 billion in
13 1996. Priority Mail is not under consideration for work-sharing discounts or
14 expanded entry options in this proceeding.

15 It is obvious that this small parcel delivery market is dynamic and
16 growing, and that it is not characterized by companies competing only for
17 changes in market share. The recently-announced combination of Federal
18 Express and Calibre Systems will make this market even more competitive.
19 Growth of the companies mentioned above was either the result of, or the
20 catalyst for, the demand for small parcel deliveries in a timely and cost-
21 effective manner. I believe the "catalyst" theory. Businesses said, "If you can
22 deliver my product more cheaply and on time, I can change the way I do

1 business.” Could one suppose that direct marketing today would be a multi-
2 billion dollar industry without the ability to deliver small parcels cost-
3 effectively? What would be the impact on the volume of advertising mail and
4 catalogs if the delivery of small parcels was cost-prohibitive?

5 As the size of the marketplace and scope of demand for small parcel
6 shipments expanded, carriers initially focused on specific market segments.
7 UPS focused on ground delivery, FedEx on next-day, and RPS on business-to-
8 business. It is said that the Postal Service thought about getting out of the
9 parcel delivery business. In the early 1990’s, carriers sought to explore
10 expansion opportunities. The lines between carrier offerings became blurred
11 as traditional air freight companies expanded into ground services, and
12 ground service companies attempted next-day and second-day air freight
13 programs. The market for which none of these carriers seemed to compete
14 enthusiastically was residential delivery. The levy of a residential surcharge
15 of \$0.25 per parcel by UPS in 1991 was the start of a practice which placed
16 an extra burden on companies shipping to that market. The UPS residential
17 surcharge today is \$0.80. RPS shuns residential delivery with a surcharge
18 reported to be as high as \$1.50. FedEx seems to take a targeted approach to
19 the very highest profile direct marketers who are willing to pay premium
20 prices.

21 Shipping and handling charges are a major concern for both direct
22 marketing companies and consumers who regularly use catalogs to secure

1 products which may not be locally available. They have a direct impact on
2 the price and variety of merchandise which can be offered to the consumer.
3 Shipping charges must bear some reasonable relationship to the price of the
4 product. Thus, lower shipping charges mean lower prices for products and
5 generally result in a wider variety of merchandise being offered to the
6 consumer.

7 As mentioned earlier, the absence of a cost-effective delivery network
8 could potentially reduce the volume of advertising mail and catalogs shipped
9 via the Postal Service. High shipping charges would mean that only high-
10 priced merchandise with profit ratios sufficient to absorb those charges
11 would be offered through the mail and other media.

12 V. RESPONDING TO THE MARKET'S NEED

13 The Postal Service was wise to request the Destination Bulk Mail
14 Center entry rate for parcels in 1990, and the Postal Rate Commission has
15 been proven wise to recommend it. The thinking underlying this change was
16 sound, and this single adjustment to the postal system created the
17 opportunity for shippers to have a competitive alternative to the UPS
18 offering, which had become very expensive for many shippers. It is worthy of
19 mention that residential deliveries via UPS have incurred not only the
20 surcharge, but also an annual increase in base rates over the years. For

1 example, UPS' total charge for a three-pound parcel sent from Minneapolis,
2 Minnesota to Atlanta, Georgia has increased from \$2.53 in 1990 to \$4.44 in
3 1997. With the availability of the Postal Service's 1991 DBMC entry rates,
4 however, parcel post became a real option. In fact, despite a substantial rate
5 increase for parcels entered at the DBMCs in 1995, the trend of parcel
6 volume and revenue for the Postal Service has been positive since 1991. In
7 addition to the DBMC entry rate, operational steps taken to enhance service
8 have been effective in demonstrating to shippers that fourth-class (now
9 Standard B) parcel post is efficient, reliable and provides a reasonable level
10 of service. The product is not a premium service in that it does not provide
11 insurance, tracking, proof of delivery or guaranteed delivery times. Shippers
12 recognize this, and accept these competitive disadvantages in return for the
13 lower cost afforded by the DBMC entry rates. The DBMC entry rate has
14 made it possible to expand the price range of offerings through catalogs and
15 advertising mail.

16 It is also reported that parcels entered at the DBMC rate cover their
17 direct costs and make both a positive and significant contribution to the
18 overhead costs of the Postal Service. The acceptance and implementation of
19 the DBMC rate is a credit to the foresight of the Postal Service, the Postal
20 Rate Commission, and those parties supporting the proposal in 1990. Now,
21 the Postal Service has proposed special entry rates for Destination Sectional
22 Center Facilities and Destination Delivery Units, as well. It is my firm belief

1 that the recommendation of the Postal Service's proposals for DSCF and
2 DDU parcel entry will be as beneficial as DBMC rates have been.

3 Obviously, new entry level rates are desirable to increase the Postal
4 Service's business, which has very important consequences for the nation's
5 economy. For, despite the improvements brought about by the DBMC entry
6 rates and other parcel post improvements from 1991 to the present, UPS has
7 remained far and away the largest parcel shipper in the country, and one
8 upon which the country has come to depend — in my opinion, too much. It is
9 critical that the nation have even better options than it now has for parcel
10 delivery. Recent events tell us why.

11 VI. TO THE NEXT MILLENNIUM

12 The summer of 1997 provided all shippers, and small parcel shippers,
13 most specifically, with a rude and unpleasant wake-up call. The strike of the
14 Teamsters Union against UPS has been interpreted as an event which will
15 cause a major change in the way businesses conduct their small parcel
16 shipping practices in the future. While we have heard numerous comments
17 concerning the danger of shippers "putting all their eggs in one basket," the
18 most important fall-out, in my opinion, is the demonstration of the fragility of
19 the parcel delivery mechanism upon which the nation's economy has come to
20 depend.

1 August is typically a slower time of the year for small parcel shipping,
2 and so the timing of the strike was fortunate in that some extra capacity
3 existed in the parcel delivery system. Even under these circumstances, at
4 the end of 15 days, all systems were at the breaking point. The pipeline was
5 full, and the time for layoffs at those businesses depending upon alternative
6 carriers was at hand. The strike ended just in time.

7 Various news articles opined that a longer strike would have resulted
8 in \$3.5 billion in lost output for the economy. As the pain mounted, a
9 startling revelation was made by one of the trade journals: "YOU CAN'T
10 FAX A PACKAGE."

11 During the course of this strike, it became painfully apparent that no
12 substitute mechanism of sufficient capacity existed to offset the loss of UPS'
13 network. As the strike wore on, the backlog of undelivered parcels mounted
14 as each apparent alternative reached points beyond its capacity. On
15 September 4, 1997, two weeks after the strike ended, the *Wall Street Journal*
16 reported, "Now it [UPS] is coping with a huge backlog — which may have
17 totaled 90 million parcels, according to some analysts — because many
18 shippers held on to their freight until the strike ended."

19 UPS has become so dominant that, during the strike, it was reported
20 that order response rates fell as much as 25 percent because consumers
21 assumed that orders could not be delivered. They therefore either delayed
22 orders or purchased the merchandise from different sources.

1 The UPS strike vividly demonstrates the need for an increase in the
2 capacity of the nation's small parcel delivery network. The relevance of this
3 is that the Postal Rate Commission is now in a position to enhance the
4 competitiveness of an alternative to UPS: the Postal Service is in a position
5 to provide reasonably-priced service to residential addresses. I do not believe
6 it is sound national policy to allow one company to control over a reported 80
7 percent of the ground parcel shipments in this country. The aftermath of this
8 summer's strike has given small businesses, consumers, and direct marketers
9 a taste of what it's like to be vulnerable when a single delivery source fails.

10 **VII. WORK-SHARING DISCOUNTS — A PROVEN CONCEPT**

11 While I have not employed the resources to analyze, evaluate or offer
12 alternatives regarding the quantitative and legal issues in these proceedings,
13 it is my belief that the Commission's recommendations are ultimately tested
14 in the field by businesses like CTC. Therefore, I feel qualified to make the
15 following comments and observations based on the experiences of my
16 company and the customers we serve.

17 Since 1979, the Postal Service has offered discounts to mailers able to
18 organize their advertising and catalog mail in a way which promotes
19 efficiency in delivery and avoidance of the work necessary to sort mailings
20 into the desired sequences. Mailers, given this incentive, use computer

1 technology to perform the sortation of names and addresses before
2 application to the mailpiece. The logical efficiency of sorting data rather
3 than product is self-evident. The present-day Standard A product consisted
4 of some 26 billion pieces in 1979. For 1996, the comparable quantity is 71.8
5 billion pieces.

6 As mailpieces were produced in a sequence for delivery into the postal
7 system, the next logical step was to avoid handling and transportation of the
8 finished product. Thus, additional work-sharing discounts became available
9 to mailers able to transport their products deeper into the postal system.

10 The absence of such a system of work sharing assisted by modern
11 technology would probably have restricted the ability of the Postal Service
12 and its customers to grow the direct marketing business to its current level of
13 success, which is of benefit to the entire economy.

14 In order to enjoy the benefits of the Postal Service's new work-sharing
15 proposals for parcels, shippers will need to make certain investments in
16 facilities, hardware, and technology. To my knowledge, at present, no
17 general capability exists to manage the large-scale documentation, collection,
18 sortation, and transportation which will be required to maximize utilization
19 of the proposed DSCF and DDU options. The Postal Service will also need to
20 modify certain procedures and work out the rules required to administer the
21 program. However, this is the same process that industry and the Postal
22 Service went through, and continue to develop, with regard to the shipping of

1 advertising mail and catalogs. In order to begin the work, we need a
2 structure of rates and rules in place so that we can predict the outcome of our
3 efforts. The Commission will hopefully approve the entry options and
4 recommend rates which will furnish the incentive to make the needed
5 investment and provide the Postal Service with a reasonable contribution to
6 its overhead.

7 I have not undertaken sufficient study to comment on the Postal
8 Service's justification for the proposed rate levels at the various entry points.
9 However, it should be clear that if the rates are not attractive enough to
10 induce shippers to route parcels into the system, the market will not respond.
11 These rates should pass through the maximum available savings so that a
12 powerful incentive is created to attract the up-front investment needed from
13 private industry.

14 To summarize this portion of my testimony, history shows that work-
15 sharing concepts between the Postal Service and mailers work well for
16 advertising mail and catalogs. The same concepts logically apply to parcels
17 as well. Parcel shippers will utilize technology and other types of investment
18 to participate in this work sharing based on the economic tradeoffs between
19 cost and benefit. As businesses implement solutions, the volume of parcels
20 entered in the Postal Service will increase far beyond the present level.

1 **VIII. GREATER CONTROL OVER SHIPMENTS**
2 **AFFORDED BY NEW CONCEPTS**

3 Like most businesses, direct marketing is exposed to certain risks.
4 Sound management devotes significant time and effort to appraising and
5 dealing with those risks. Measuring the results of various types of offerings
6 can give direction to catalog offerings, pricing and inventory investments. It
7 is my belief that the proposed destination entry concepts will enhance the
8 direct marketer's ability to achieve a greater level of control over the
9 distribution function of this business, and thus enjoy greater success.

10 Direct marketers are extremely sensitive to transit times. Consumer
11 satisfaction is closely linked to the ability to make and keep a promise
12 regarding delivery time. When these promises are not kept, parcel shippers
13 are exposed to dealing with an unhappy customer as well as the threat that
14 the consumer may not buy again.

15 Expansion of the Postal Service's capability to receive incoming
16 shipments at various levels of the service — DBMC, DSCF, and DDU —
17 would provide mailers with additional options which will provide a greater
18 degree of control over delivery of their products.

1 **IX. PRUDENT FINANCIAL MANAGEMENT —**
2 **RESOURCE ALLOCATION**

3 The current bulk mail center network is now 22 years old. The last
4 bulk mail center was built in 1976. These facilities are well maintained, but
5 are not “state of the art.” Furthermore, changes in demographics across the
6 nation and the growing markets for parcels and other mail have not always
7 conformed to the original design of the BMC network. As a result, increasing
8 volumes can place strains on existing facilities that can result in unacceptable
9 variations in delivery times.

10 While additional investment in improving and reconfiguring the
11 network by adding new facilities is a clear option to address this situation,
12 the proposed parcel entry proposals for DSCFs and DDUs would contribute
13 significantly to operational flexibility and would greatly enhance the Postal
14 Service’s policy choices in meeting the needs of mailers and the economy. In
15 other words, the improved routing of parcels, driven by technology, can
16 reduce the need for significant additional investment in facilities such as
17 bulk mail centers. This will permit the Postal Service to allocate resources to
18 other areas, and ultimately reduce the burden on all mailers. The resulting
19 shifts in mailer choices could help the Postal Service to provide consistent,
20 reliable service, while holding down overall costs in the long run. In this
21 important respect, the Postal Service’s proposed classification changes for

1 DSCF- and DDU-entry are highly desirable for both the mailers and the
2 Postal Service, and could greatly enhance the value of parcel and other mail
3 services to the mailing public and the American people in general.

4 X. COMPETITIVE CONCERNS

5 From time to time, I hear of concerns relating to the Postal Service as a
6 competitor to private enterprise. Although these concerns do not focus on
7 parcel delivery as a business segment the Postal Service should be forced to
8 abandon, witnesses in the past have offered various proposals designed to
9 make the Postal Service's parcel delivery option less competitive in the open
10 marketplace.

11 As a shipper of small parcels to residential addresses, faced with
12 limited alternatives and a long history of rate increases from the dominant
13 provider, it is important to me that the Postal Service be allowed to be even
14 more competitive in this area. Although the Postal Service benefits from a
15 monopoly with respect to letters, no such advantage exists regarding parcels.
16 In fact, neither the Postal Service's size, nor its financial strength, nor its
17 nation-wide network have afforded it an effective competitive advantage over
18 others in the market for small parcel deliveries. Far from having
19 monopolistic power in this segment of the market, it cannot even be viewed
20 as inhibiting the growth of other parcel delivery companies. Certainly, for

1 example, the Postal Service has not slowed the growth or reduced the
2 profitability of any of the leading parcel delivery companies.

3 It is the Postal Service's presence as a viable competitive alternative
4 which provides a protective ceiling for its current and potential users over
5 the unrestricted price increases of others. While residential delivery prices of
6 the dominant provider have increased 75 percent between 1991 and 1997,
7 users of the DBMC entry option have enjoyed relative price stability.

8 We are all witnesses to the lack of sufficient alternatives for parcel
9 shippers, as demonstrated by the UPS strike this past summer. More
10 alternatives are needed to ensure that one, single organization in this
11 country will not control such a substantial majority of the interstate ground
12 parcel shipments. This percentage would be even greater were it not for the
13 DBMC entry option. Creation of additional options — such as the DSCF- and
14 DDU-entry rates proposed by the Postal Service in this docket — will further
15 strengthen the Postal Service as a realistic alternative for parcel shippers.

16 XI. CONCLUSION

17 Economic trends are being driven by technology which identifies and
18 assists in eliminating inefficient processes. The Postal Service has provided
19 studies and data which show that costs can be avoided through
20 implementation of its proposals for the entry of parcels at destination entry

1 points in closer proximity to the final recipient. Its judgments have proven
2 valid with regard to DBMC-entry. They should be equally valid for DSCF-
3 and DDU-entry.

4 It is competition which has helped to advance the economic prosperity
5 we enjoy as a nation. It is the "opening up" of the capabilities of the Postal
6 Service which, with the combined efforts of postal users and the Postal
7 Service, will result in the efficient, safe, reliable and timely delivery of
8 parcels. These initiatives will not cause undue harm to other competitors in
9 this growing marketplace.

10 The Postal Rate Commission is now positioned to play an important
11 role in advancing the public interest by helping the Postal Service create a
12 parcel transportation and delivery network which is aligned with the
13 capabilities and needs of those industries delivering products to the homes
14 and businesses of our nation. This work is ongoing, and will not end with the
15 initiatives being offered in this docket. Nonetheless, they are important
16 steps in the right direction.

1 CHAIRMAN GLEIMAN: Mr. Clark, have you had an
2 opportunity to examine the packet of what we call designated
3 written cross-examination that was made available to you
4 earlier this morning? Those are the written responses you
5 previously provided?

6 THE WITNESS: Yes.

7 CHAIRMAN GLEIMAN: If these questions were asked
8 of you today, would your answers be the same as those you
9 previously provided in writing?

10 THE WITNESS: Yes.

11 CHAIRMAN GLEIMAN: That being the case, I'm going
12 to provide two copies of the designated written cross-
13 examination of Witness Clark to the reporter and direct that
14 they be accepted into evidence and transcribed into the
15 record at this point.

16 [Designation of Written Cross-
17 Examination of John T. Clark, CTC-
18 T-1, was received into evidence and
19 transcribed into the record.]

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 1997

Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF CTC DISTRIBUTION SERVICES, L.L.C.
WITNESS JOHN L. CLARK
(CTC-T1)

Party

Office of the Consumer Advocate

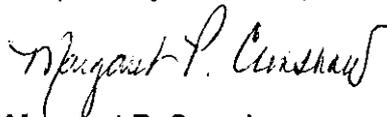
United Parcel Service

Interrogatories

UPS/CTC-T1-1, 5-8, 10-20

UPS/CTC-T1-1-11

Respectfully submitted,



Margaret P. Crenshaw
Secretary

INTERROGATORY RESPONSES OF
CTC DISTRIBUTION SERVICES, L.L.C.
WITNESS JOHN L. CLARK (T1)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory:

UPS/CTC-T1-1
UPS/CTC-T1-2
UPS/CTC-T1-3
UPS/CTC-T1-4
UPS/CTC-T1-5
UPS/CTC-T1-6
UPS/CTC-T1-7
UPS/CTC-T1-8
UPS/CTC-T1-9
UPS/CTC-T1-10
UPS/CTC-T1-11
UPS/CTC-T1-12
UPS/CTC-T1-13
UPS/CTC-T1-14
UPS/CTC-T1-15
UPS/CTC-T1-16
UPS/CTC-T1-17
UPS/CTC-T1-18
UPS/CTC-T1-19
UPS/CTC-T1-20

Designating Parties:

OCA, UPS
UPS
UPS
UPS
OCA, UPS
OCA, UPS
OCA, UPS
OCA, UPS
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Response of John Clark to UPS/CTC-T1-1
Page 1 of 1

UPS/CTC-T1-1.

Please refer to lines 4 through 7 on page 1 of your testimony, where you state, "...CTC has grown to become the largest shipper of small parcels to the residences of individual consumers in the United States for the direct marketing industry."

- (a) Identify all other "shipper[s] of small parcels to the residences of individual consumers in the United States for the direct marketing industry."
- (b) Provide as complete a list as possible of businesses which CTC considers to be its competitors.

Response:

- (a) To the best of my knowledge, RMX Logistics of Reno, Nevada and Parcel Corporation of America, are two companies of which we are aware, which offer services somewhat similar to CTC. There may be others.
- (b) United Parcel Service, United States Postal Service, RMX Logistics, Parcel Corporation of America and Federal Express.

Response of John Clark to UPS/CTC-T1-2
Page 1 of 1

UPS/CTC-T1-2.

Please refer to lines 8 through 14 on page 1 of your testimony, and in particular to lines 13-14, which state, "Final delivery is made by a parcel delivery company."

- (a) For each year from 1990 through 1997, identify all parcel delivery companies used by CTC to make final delivery.
- (b) For 1997, provide the number of parcels delivered by each parcel delivery company used by CTC to make final delivery.

Response:

- (a) and (b) See objection previously filed.

Response of John Clark to UPS/CTC-T1-3**Page 1 of 1****UPS/CTC-T1-3.**

Provide separately for each year from 1993 through 1997 the number of parcels sent by CTC in each separate Postal Service subclass and rate category.

Response:

See objection previously filed.

Response of John Clark to UPS/CTC-T1-4
Page 1 of 1

UPS/CTC-T1-4.

Please refer to lines 17 through 21 on page 1 of your testimony, where you indicate that CTC "is a user of ... local and regional carriers...." Please provide a list of all local and regional carriers (a) currently used by CTC, and separately, (b) used by CTC at any time during 1997 "for the final delivery of [CTC's] shipments" (see line 21 on page 1 of your testimony).

Response:

See objection previously filed.

Response of John Clark to UPS/CTC-T1-5
Page 1 of 1

UPS/CTC-T1-5.

Please refer to lines 8-9 on page 2 of your testimony, where you indicate that, "[b]y 1993, almost all of CTC's business had migrated to the Postal Service."

- (a) Why did CTC shift almost all of its business to the Postal Service by 1993?
- (b) Is the time in transit provided by the Postal Service acceptable and satisfactory to CTC?
- (c) Is the overall quality of service provided by the Postal Service acceptable and satisfactory to CTC?
- (d) Has any aspect of the service provided to CTC by the Postal Service improved at any time from 1994 to the present? If so, provide all respects in which the Postal Service's service to CTC has improved.

Response:

- (a) Postal Service delivery was the option selected by its clients
- (b) Yes.
- (c) Yes.
- (d) Yes. The Postal Service's adoption of an improved practice relative to the delivery of parcels, Form 3849 (Delivery Notice/Reminder Receipt), its adoption of a "carrier leave if no response" delivery option, and improved systems to handle incoming loads at bulk mail centers are examples of improvements in service.

Response of John Clark to UPS/CTC-T1-6

Page 1 of 1

UPS/CTC-T1-6.

Please refer to line 4 through 8 on page 2 of your testimony, where you indicate that beginning around 1991, "CTC began offering Postal Service delivery, as well as UPS delivery, for a final delivery option to its clients."

- (a) Who selects the carrier which makes final delivery, CTC or its clients?
- (b) To the extent this decision is made by CTC, what factors does CTC take into account in making that decision?
- (c) To the extent CTC's clients make this decision, what have those clients indicated to CTC about the factors they take into account in making that decision?

Response:

- (a) Clients.
- (b) Not applicable.
- (c) Lower cost, acceptable levels of service, and availability of an alternative to UPS.

Response of John Clark to UPS/CTC-T1-7
Page 1 of 1

UPS/CTC-T1-7.

Did CTC play any role in the development of the Postal Service's Parcel Post proposals in this proceeding? If so, please (a) describe the role which CTC played, (b) indicate whether specific discounts or rate levels for the various proposed new discounts were discussed by the Postal Service and CTC before the Postal Service's Request initiating this proceeding was filed, and (c) state whether the proposed discounts or rate levels were changed during the course of those discussions.

Response:

- (a) Yes. CTC encouraged the Postal Service to propose more worksharing discounts as well as what we perceived would be improvements in such areas as insurance and tracking parcels to destinations.
- (b) No.
- (c) Not applicable.

Response of John Clark to UPS/CTC-T1-8
Page 1 of 1

UPS/CTC-T1-8.

- (a) Please refer to lines 2 through 6 on page 3 of your testimony. For 1997, provide separately the volume of packages entered by CTC at:
- (1) Origin Bulk Mail Centers;
 - (2) Destination Bulk Mail Centers;
 - (3) Destination Sectional Center Facilities;
 - (4) Destination Delivery Units.
- (b) Provide the number of Postal Service facilities at which CTC tendered parcels to the Postal Service during 1997.

Response:

- (a) See objection previously filed.
- (b) 47 facilities.

Response of John Clark to UPS/CTC-T1-9**Page 1 of 1****UPS/CTC-T1-9.**

Assuming the discounts and rates for Parcel Post proposed by the Postal Service in this proceeding were implemented, provide an estimate of (a) the total number of parcels CTC will enter at Postal Service facilities in 1999 and (b) the number of parcels CTC will enter in 1999 at the following types of Postal Service facilities:

- (a) Origin Bulk Mail Centers;
- (b) Destination Bulk Mail Centers;
- (c) Destination Sectional Center Facilities;
- (d) Destination Delivery Units.

Response:

See objection previously filed.

Response of John Clark to UPS/CTC-T1-10

Page 1 of 1

UPS/CTC-T1-10.

When CTC tenders a shipment of parcels to the Postal Service at a Bulk Mail Center, who unloads the CTC vehicle, CTC or postal personnel?

Response:

Postal Service personnel, assisted by driver when requested.

Response of John Clark to UPS/CTC-T1-11

Page 1 of 1

UPS/CTC-T1-11.

When CTC tenders a shipment of parcels to the Postal Service at a Sectional Center Facility, who unloads the CTC vehicle, CTC or postal personnel?

Response:

Postal Service personnel, assisted by driver when requested.

Response of John Clark to UPS/CTC-T1-12
Page 1 of 1

UPS/CTC-T1-12.

- (a) When CTC tenders a shipment of parcels to the Postal Service at a Destination Delivery Unit, who unloads the CTC vehicle, CTC or postal personnel?
- (b) When CTC tenders a shipment of parcels to the Postal Service at a Destination Delivery Unit, does CTC's employees shake out any sacks on Destination Delivery Unit's platform?

Response:

- (a) To date, no parcels have been delivered by CTC to Destination Delivery Units.
- (b) Not applicable.

Response of John Clark to UPS/CTC-T1-13
Page 1 of 1

UPS/CTC-T1-13.

Please refer to lines 2 through 4 on page 4 of your testimony, where you state, "[f]reedom to enter the market and compete has resulted in more alternatives for shippers, lower costs and improved service."

- (a) Are there more alternatives for shippers of small parcels now than there were in 1991?
- (b) Are there more alternatives for shippers of small parcels than there were in 1995?

Response:

- (a) As this question relates to the subject at hand, the single-source nationwide delivery of small parcels utilizing ground service, the answer is no with the possible exception of services offered by Federal Express.
- (b) Same as above.

Response of John Clark to UPS/CTC-T1-14

Page 1 of 1

UPS/CTC-T1-14.

Please refer to lines 13-14 on page 7 of your testimony, where you indicate that "Priority Mail is not under consideration for work-sharing discounts or expanded entry options *in this proceeding*" (emphasis added). Do you know whether work-sharing discounts or expanded entry options for Priority Mail are under consideration? If so, discuss your understanding of what possible proposals are under consideration.

Response:

It is my understanding that the Postal Service proposes in this proceeding to eliminate an existing presort discount for Priority Mail. I know of no proposals for worksharing discounts or expanded entry options for Priority Mail.

Response of John Clark to UPS/CTC-T1-15
Page 1 of 1

UPS/CTC-T1-15.

Please refer to lines 9-13 on page 8 of your testimony, where you indicate that "traditional air freight companies expanded into ground services" in the 1990's. Identify all traditional air freight companies that expanded into ground services in the 1990's as referred to in your testimony.

Response:

Federal Express and, possibly, Airborne.

Response of John Clark to UPS/CTC-T1-16**Page 1 of 1****UPS/CTC-T1-16.**

Is it generally more costly for a parcel delivery company to make residential deliveries of small parcels than to make commercial or business deliveries of small parcels? Please explain your answer.

Response:

CTC does not operate a residential or business delivery service to addressees, of course, and I would want to examine the relevant data, which I do not have, before responding to such a general question.

**Response of John Clark to UPS/CTC-T1-17
Page 1 of 1**

UPS/CTC-T1-17.

Which came first, the Postal Service's initial proposal of separate Destination Bulk Mail Center rates, or UPS's surcharge for residential deliveries?

Response:

The Postal Service's initial proposal for separate DBMC rates came first.

Response of John Clark to UPS/CTC-T1-18

Page 1 of 1

UPS/CTC-T1-18.

Please refer to lines 16 through 18 on page 10 of your testimony.

- (a) To what are you referring when you state, "[i]t is also reported that parcels entered at the DBMC rate cover their direct costs and make both a positive and significant contribution to the overhead costs of the Postal Service"?
- (b) Define what you mean by "direct costs" on line 17 of page 10 of your testimony.

Response:

- (a) Early in 1997, I reviewed a document which I received from a Postal Service employee which was titled, "Profitability Rankings." This document listed each mail subclass or category and then listed the "FY 96 Profit per Dollar of Revenue (cents)." A footnote stated that "Profit per dollar of revenue is calculated using revenue and variable cost data derived from Finance's FY 96 Cost and Revenue Analysis Report. It equals revenue minus variable cost divided by revenue. \$63 million has been subtracted from DBMC and non-DBMC parcel post's total variable cost to adjust for air transportation cost premium incurred to serve Alaska." The above calculation for DBMC was \$.35 and the average for all classes was \$.39. That is the basis for my statement.
- (b) The term "direct costs" as used in my testimony is intended to refer to attributable costs that are applicable to a specific class of mail. I have been informed that attributable costs include costs classified as direct and indirect.

Response of John Clark to UPS/CTC-T1-19**Page 1 of 1****UPS/CTC-T1-19.**

Please refer to lines 5 through 8 on page 11 of your testimony, where you refer to DBMC rates and "other parcel post improvements from 1991 to the present." List all Parcel Post improvements from 1991 to the present there referred to by you.

Response:

See response to question UPS/CTC-T1-5(d).

Response of John Clark to UPS/CTC-T1-20
Page 1 of 1

UPS/CTC-T1-20.

Please state or provide an estimate of the percentage of CTC's parcels which are delivered to residences.

Response:

CTC does not electronically receive or maintain any information relative to the specific destination address of consignees and therefore is not able to categorize the nature of destination locations.

1 CHAIRMAN GLEIMAN: Does any participant have
2 additional written cross-examination for the witness?

3 MR. McKEEVER: Yes, Mr. Chairman, with a short
4 explanation.

5 United Parcel Service had served a number of
6 interrogatories on CTC to which CTC objected. As a result
7 of discussions among counsel we have reached an agreement on
8 those avoiding the need for any motion to compel.

9 The agreement did provide for some change in the
10 wording of question so that Mr. Clark could respond in a way
11 that he found the question to be unobjectionable. I have
12 two copies -- this agreement was reached late last week,
13 Thursday or Friday, I can't recall which, and I do have two
14 copies of the questions as revised as well as Mr. Clark's
15 answers.

16 No declaration was filed because as I mentioned,
17 the interrogatories originally were not answered and the
18 agreement was just reached late last week. I have extra
19 copies for the parties, but I would like to approach Mr.
20 Clark with a copy of that answer, have him adopt it today,
21 and add it to the record.

22 CHAIRMAN GLEIMAN: Mr. Olson?

23 MR. OLSON: That is the agreement made and we have
24 no objection.

25 CHAIRMAN GLEIMAN: Mr. McKeever, if you could

1 approach the witness.

2 CROSS-EXAMINATION

3 BY MR. McKEEVER:

4 Q Mr. Clark, I've handed you a copy of a document
5 entitled "Responses of John Clark in lieu of Responses to
6 Objected-to Interrogatories of United Parcel Service" dated
7 February 12, 1998. If the questions in that document were
8 asked of you today, would your answers be the same?

9 A Yes.

10 Q And do you adopt that as your testimony in this
11 proceeding?

12 A Yes.

13 MR. McKEEVER: Mr. Chairman, with that I move that
14 upon my handing the court reporter two copies that Mr.
15 Clark's answer to the interrogatory be admitted into
16 evidence today.

17 CHAIRMAN GLEIMAN: If you would please provide
18 those to the reporter and also I'll ask that you provide --
19 you indicated you had copies for the other parties.

20 MR. McKEEVER: I will provide copies for the bench
21 and make copies available to other parties as well.

22 CHAIRMAN GLEIMAN: Thank you.

23 That being the case, two copies of the additional
24 designated written cross-examination of Witness Clark having
25 been given to the reporter, I'll direct that they be

1 accepted into evidence and transcribed into the record at
2 this point.

3 [Additional Designation of Written
4 Cross-Examination of John L. Clark,
5 CTC-T-1, was received into evidence
6 and transcribed into the record.]

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**RESPONSES OF JOHN CLARK IN LIEU OF
RESPONSES TO OBJECTED-TO INTERROGATORIES OF UNITED PARCEL SERVICE
(UPS/CTC-T1- 2, 3, 4, 8(a) and 9)
(February 12, 1998)**

Please provide:

- (a) The number (as opposed to the identity) of all parcel delivery companies used by CTC to make final delivery during 1997.
- (b) The number (as opposed to the identity) of all local and regional carriers currently used by CTC.
- (c) The number (as opposed to the identity) of local and regional carriers used by CTC at any time during 1997.

Response:

- (a) 19
- (b) 7
- (c) 17

1 MR. MCKEEVER: Thank you, Mr. Chairman.

2 CHAIRMAN GLEIMAN: Only one participant, United
3 Parcel Service has requested oral cross-examination of
4 Witness Clark. Does any other participant have oral cross-
5 examination for this witness?

6 [No response.]

7 CHAIRMAN GLEIMAN: There doesn't appear to be
8 anyone else. Mr. McKeever, as soon as you're ready, would
9 you please begin?

10 MR. MCKEEVER: Thank you, Mr. Chairman.

11 CROSS-EXAMINATION

12 BY MR. MCKEEVER:

13 Q Mr. Clark, could you please turn to your answer to
14 UPS Interrogatory 5-D as in David?

15 A I have it.

16 Q Have you had a chance to look at that?

17 A Yes, sir.

18 Q There you were asked whether any aspect of the
19 service provided to CTC by the Postal Service has improved
20 since 1994 and you said, yes, it had improved; is that
21 correct?

22 A Yes.

23 Q And you give some examples of those service
24 improvements. The first one you mention is the Postal
25 Service's adoption of an improved practice relative to the

1 delivery of parcels. What specifically were you referring
2 to there?

3 A Well, in 1991 when the DBMC rates were originally
4 implemented and we showed this alternative to our customers,
5 those that accepted it were somewhat dismayed by the fact
6 that there were a significant number of instances where the
7 delivery man, the postman, would leave a yellow slip in the
8 recipient's mailbox with the instruction that they should
9 come down to Post Office and pick up their package. And our
10 customers found this very objectionable in a sense that
11 typically a person orders from a catalog with convenience of
12 receiving the package in their home. And it was very
13 inconvenient for them to go into the Post Office on a
14 Saturday morning go and stand in line waiting for the
15 package to come to them.

16 So we brought this to the attention of the Postal
17 Service and we suggested some alternatives to that practice.
18 And we worked with them to redesign this form, 3849, and it
19 became a lot more user-friendly. For example, it told the
20 recipient that if they wanted to reschedule their delivery
21 they could do that by marking the time that they wanted the
22 package delivered to their home and so on, and it became a
23 lot more acceptable to customers.

24 At the same time, the Postal Service is very
25 sensitive to the security of the mail and was very reluctant

1 to leave a package unattended, perhaps exposed to the
2 elements or perhaps to a thief. So in bringing that to the
3 Postal Service's attention we said, well, why can't we give
4 the mailer an option to leave if no response. And the
5 Postal Service over a short period of time accepted that
6 idea. So that the mailer had an option, if the location was
7 deemed to be a safe location to leave the package. And
8 these were both very significant improvements because they
9 overcame objections of the mailer to parcel delivery by the
10 Postal Service.

11 Q You mentioned in your answer that the new form
12 that is left when a delivery is attempted but no one is
13 there had some method by which the recipient could
14 reschedule delivery, I believe. Does that mean that if the
15 recipient chose that option then the Postal Service would go
16 out a second time to deliver the package?

17 A I believe so.

18 Q Okay. Now could you turn to page 10 of your
19 testimony, please?

20 A Question 10?

21 Q Page 10 of your testimony.

22 A Oh, I'm sorry.

23 Q And I'd like to specifically direct your attention
24 to lines 6 through 10.

25 A Yes, sir.

1 Q There you state that operational steps taken to
2 enhance service have been effective in demonstrating that
3 Parcel Post is efficient, reliable, and provides a
4 reasonable level of service. Is that another example of how
5 Parcel Post service has improved in the recent past?

6 A Well, I consider the changes to that form to be
7 operational steps, and also I mentioned in my answer to your
8 interrogatory that the administration of receipts of
9 trailers into Bulk Mail Centers and so on to enhance transit
10 time was another instance of how operational steps have
11 enhanced service.

12 Q Yes, I understand your answer to Interrogatory 5-
13 D to provide us -- I think you state in your answer examples
14 of the way in which service has improved since 1994; is that
15 correct?

16 A That's correct.

17 Q Okay. With respect to providing a reasonable
18 level of service, the term you use on page 10 at lines 9 to
19 10, you also note on page 16 of your testimony at line 10
20 that direct marketers -- and that's your customers, right,
21 direct marketers?

22 A What line are you on, sir?

23 Q Line 10.

24 A I'm sorry. Yes.

25 Q That direct marketers are extremely sensitive to

1 transit times; is that right?

2 A That's correct. I also followed that up with the
3 idea that it's closely linked to the ability to make and
4 keep a promise relative to delivery time, so the consumer
5 has a clear expectation of how long it's going to take that
6 package to get delivered, and as long as that promise is
7 kept, that sensitivity factor, if you'd call it that, is
8 satisfied.

9 Q And you mention in your answer to Interrogatory
10 5-C, for example, that the Postal Service's Parcel Post
11 quality of service is acceptable; is that correct?

12 A It's acceptable.

13 Q Okay. Mr. Clark, could you please turn to page 4
14 of your testimony? And specifically, I'd like to direct
15 your attention to lines 5 through 9.

16 A Yes, sir.

17 Q There you indicate that the thought behind the
18 Postal Service's Parcel Post proposals in this proceeding
19 focuses on increasing competition; is that right?

20 A I'm not sure I understand your question exactly as
21 your stated it. I don't see where I say the Postal
22 Service's proposals are directed to increased competition.

23 Q Well, you indicate --

24 A I say on line 8 -- I say both focus on increasing
25 competition.

1 Q Yes. That's all; I was trying to direct your
2 attention to that. The Postal Service's proposals focus on
3 increasing competition, as did deregulation.

4 A Yeah, I'm trying draw a parallel --

5 Q Yes.

6 A Between the two situations, one in my opinion
7 being a successful demonstration that deregulation in a
8 sense created more competitive alternatives for shippers who
9 use trucking, and I saw a parallel in what the Postal
10 Service was proposing here.

11 Q Okay. You later state in that same paragraph at
12 lines 14 through 16 that the delivery of small parcels is
13 one segment of our nation's economy which will benefit from
14 more competitors. Do you see that?

15 A Yes, sir.

16 Q Mr. Clark, is it your testimony that adoption of
17 the Postal Service's proposed discounts will lead to more
18 competitors in the small-parcel delivery market?

19 A Well, I already view the Postal Service as a
20 competitor. I think it will make them more competitive in
21 that marketplace by offering additional alternatives to
22 shippers of small parcels, especially shippers who have the
23 need for residential delivery, as opposed to business-to-
24 business delivery, and throughout my testimony I've tried to
25 focus on residential delivery.

1 Q Do you -- is it your understanding or belief that
2 the adoption of the Postal Service's proposed discounts
3 would lead to more competitors than there are now? That's
4 the term you use in your testimony, and that's why I asked
5 you the question.

6 A Well, I guess if one party is more competitive, it
7 may not increase the number of competitors, unless I suppose
8 we could -- I suppose we could consider that in the sense of
9 more companies like mine coming into the business, and
10 utilizing the services offered, so that more shippers could
11 take advantage of it.

12 I mean, our company is, you know, relatively small
13 in the scheme of things here, I mean, compared to UPS or
14 FedEx, the Postal Service and so on. So we just -- we really
15 don't have the geographic coverage that allows us to provide
16 service to everyone that might want it. So I suppose in
17 that sense there would be more companies like mine come into
18 the marketplace. I probably could have made that a little
19 bit more clear, though, I think.

20 Q But you do consider yourself to be not only a
21 customer but a competitor of the Postal Service as well in a
22 sense; is that right?

23 A That's what I said in my testimony; yeah.

24 Q Right. Okay. Now in your answer to the question
25 that I added to the record earlier today, the one that --

1 A Yes.

2 Q I gave you copies of.

3 A Right.

4 Q You testified that during 1997, CTC used 19 parcel
5 delivery companies to make final delivery of the packages
6 CTC handles; is that right?

7 A That's correct.

8 Q And that 17 of those companies were local and
9 regional carriers; is that right?

10 A That's correct.

11 Q Mr. Clark, do you know how much lower the proposed
12 Destinalional Sectional Center Facility, DSCF, and
13 Destination Delivery Unit, or DDU, Parcel Post rates are
14 than the present Parcel Post rates on average? Did you
15 check that?

16 A Well, Parcel Post rates is kind of a large
17 concept. You talk about inter-BMC and DBMC and the intra-
18 BMC Parcel Post. I'm not sure -- which rates are you
19 focusing on?

20 Q I'll take any of those. Let's go with inter-BMC.
21 Do you have any idea how much lower the proposed DSCF and
22 DDU rates are than those rates? Did you look into that?

23 A Well, we certainly have analyzed what's been
24 proposed in the case, and the DBMC rates are scheduled to
25 increase in both Zone 2 and quite substantially in Zone 3.

1 I understand also, though I haven't looked at it very
2 closely, inter-BMC rates, if the Commission recommends that,
3 would be increased quite a bit. So, you know, we don't
4 usually focus too much on inter-BMC rates. And the DSCF
5 rates, we have analyzed the difference between what's been
6 proposed in comparison to what's in existence today and what
7 would be the new schedule of things. So we have analyzed
8 that, yeah.

9 Q In other words, you have compared those rates to
10 the DBMC rates today and --

11 A DBMC rates today and then as proposed in this
12 case, yes.

13 Q Did you compare the DBMC rates as they exist today
14 with the DSCF and DDU rates that are proposed to see the
15 difference?

16 A Yes, we have.

17 Q Do you have any idea what the difference is, how
18 much lower the DSCF and DDU rates are?

19 A Well, it varies by weight.

20 Q Okay. When averaged do you have any --

21 A I would say in the range from 42 to 50 cents a
22 package.

23 Q Okay. I guess you don't have that in percentage
24 terms, I guess -- percentage of the -- that's all right if
25 you don't.

1 I just thought if you had it, it might be helpful.

2 A Well, we don't take percentages to the bank.

3 Q Okay, all right --

4 A So we focus on pennies. That's what --

5 Q Do you expect CTC's usage of the 17 local and
6 regional delivery companies that it used in 1997 to change
7 at all if the Postal Service's proposed DSCF and DDU and
8 other discounts are adopted?

9 A Well, our utilization of these particular types of
10 carriers varies based on the demand of the customer and they
11 are really not competitive with the services that the Postal
12 Service offers today and essentially that's why we use them.

13 In other words, we would have a customer that has
14 a specific requirement that is not available from the Postal
15 Service and those types of requirements could be the
16 delivery of packages over 70 pounds, it could be a time
17 definite type of delivery where a customer wants a package
18 delivered at 10 o'clock every morning or every Wednesday
19 morning or something of that nature, customers that have
20 multiple packages delivery where shipment integrity is
21 important. That means if they order 10 packages, all 10
22 have to show up at the same time.

23 These types of services, there is a demand for
24 them and they are not really available from the Postal
25 Service or from UPS for that matter, so that is what causes

1 us to look at regional carriers.

2 In addition, they are able to provide tracking all
3 the way to the destination, signature on delivery, and
4 insurance, and those services are not available from the
5 Postal Service. So that is our motivation for using these
6 carriers.

7 Q Do you ever look at rates and compare the rates
8 between those carriers and the Postal Service?

9 A Yes, sir.

10 Q And as a result of the adoption of these
11 discounts, assuming they were adopted, do you expect to take
12 a look at and compare the Postal Service's new discount
13 rates to the rates for those locals and regionals?

14 A Rates are certainly important but they are not the
15 determining factor in deciding whether or not to use this
16 type of a carrier. I mentioned the types of services that
17 customers put a higher value on, and so that is the demand
18 we are trying to meet.

19 Q But I think you also said that you do look at the
20 rates and that is one of the factors?

21 A It certainly is, but --

22 Q Okay.

23 A -- but again it is not the overriding or dominant
24 factor in this type of a decision using these types of
25 carriers.

1 Q Mr. Clark, do you have any idea of the total
2 numbers of parcels the Postal Service delivers in all of its
3 services where parcels are delivered, not just Parcel Post?

4 A I'm sorry, I don't.

5 Q Do you have any idea of the number of parcels that
6 weigh less than a pound which the Postal Service delivers in
7 a year?

8 A I'm sorry, I don't.

9 Q Does CTC handle parcels that weigh less than a
10 pound?

11 A Yes, sir, we do.

12 Q Is it possible to give some rough estimate of
13 either the number or percentage of the parcels that you
14 handle weigh less than a pound?

15 MR. OLSON: Mr. Chairman, I think this may get
16 into objectionable areas. If details are requested, we have
17 a number of questions that were asked about volumes of CTC.
18 They were objected to as being proprietary and then we had a
19 settlement of that issue, so I am not sure^{why} we are revisiting
20 that area.

21 MR. MCKEEVER: I don't believe that was --

22 CHAIRMAN GLEIMAN: You started out by saying we
23 may be getting into an objected area and I don't know
24 whether you just -- you said that we may be getting into an
25 objectionable area. Is that an objection on your part?

1 MR. OLSON: It is an objection with respect to the
2 numbers that CTC mails, yes.

3 CHAIRMAN GLEIMAN: So you are objecting to the
4 specific question that was asked?

5 MR. OLSON: Not only objecting because it's
6 proprietary but also objecting because it's part of a
7 settlement that was reached before with respect to these
8 numbers.

9 CHAIRMAN GLEIMAN: I just needed a clarification
10 on whether we were getting there or we were there.

11 Mr. McKeever?

12 MR. McKEEVER: Mr. Chairman? Yes, Mr. Chairman,
13 that question was not asked in the interrogatories.

14 There was one that asked CTC to provide separately
15 for each year from 1993 through 1997 the number of parcels
16 sent in each separate Postal Service subclass and rate
17 category, and so I suppose maybe this particular question is
18 subsumed within that, and certainly if Mr. Clark would
19 prefer not to provide that information, assuming he knows
20 it, then, you know, I will respect that, but I would pose
21 the question to Mr. Clark and if he feels that he can answer
22 it, it's not confidential or proprietary from his
23 standpoint, then I would appreciate that, and if he does, I
24 won't press it, so the Chair won't have to rule. I'll move
25 on.

1 MR. OLSON: Well, I'll press it, because it's
2 subject to the agreement that we reached and it is -- we
3 provided other materials and that's all we were going to
4 provide.

5 MR. MCKEEVER: Mr. Chairman, I'll withdraw that
6 question.

7 CHAIRMAN GLEIMAN: Okay. For whatever it's worth,
8 thank you for withdrawing the question. I wasn't a party to
9 the sidebar agreement. I don't know what it is that agreed
10 to, other than to provide some responses to specific
11 interrogatories in a modified fashion, but the question
12 having been withdrawn, I don't have to worry about ruling.

13 Mr. McKeever, are you going to continue?

14 BY MR. MCKEEVER:

15 Q Mr. Clark, on page 2 of your testimony on lines 3
16 through 10, you testify that CTC switched almost all, I
17 guess is the term you used, of its business away from UPS
18 and to the Postal Service in the space of about one year; is
19 that right? That's page 2 at lines 3 to 10. And I'll
20 repeat the question when you finish looking at it.

21 A Well, would you repeat the question?

22 Q Yes. There you testify that CTC switched almost
23 all of its business away from UPS and to the Postal Service
24 in the space of about one year; is that right? You indicate
25 that through 1991, you relied almost exclusively on UPS, and

1 by 1993, almost all of CTC's business had migrated to the
2 Postal Service.

3 A I suppose I could have been a little more
4 specific. I think it would be by the end of '93, and it was
5 about a two-year process, as I remember it.

6 Q Okay.

7 A So it wasn't an overnight sensation.

8 Q Okay. Could you turn to your answer to UPS
9 Interrogatory 8, please.

10 A Okay.

11 Q There you indicate that during 1997, CTC drop
12 shipped into 47 Postal Service facilities; is that right?

13 A Yes, sir.

14 Q So I take it that CTC now drop ships into
15 Sectional Center Facilities, SCFs; is that right?

16 A A few.

17 Q Well, there are what? Twenty-one BMCs?

18 A Well, there's 21 BMCs and then there's eight ASFs,
19 Auxiliary Service Facilities. We also go to Puerto Rico,
20 Alaska and Hawaii, and then the SCFs that we go to are those
21 that are more distant from the bulk mail center, so in those
22 cases, we use an inter-BMC rate to go to those.

23 Q Okay. Well, if my math was right, there's 21
24 BMCs, eight SCFs, and then you mentioned three other:
25 Puerto Rico, I guess Hawaii, and Alaska, if I remember

1 right.

2 A Yes.

3 Q That would be 32. So there's about 15 SCFs, or at
4 least other types of facilities. I think you also testified
5 in an interrogatory response you do not drop into a DDU at
6 this present time.

7 A That's correct.

8 Q Okay. Now, you may have answered this question at
9 the end of your prior answer, but let me make sure. When
10 you drop ship into an SCF, do you ever pay the DBMC rate?
11 If you know.

12 A I'm not really sure. For example, and, you know,
13 I called attention to it in my testimony, I talked about how
14 the positioning of the bulk mail centers is no longer really
15 demographically correct. So one of the Sectional Centers
16 that we go to is in Miami, Florida, where we're able to
17 generate a truckload of freight into Miami, Florida. So
18 rather than paying a Zone 4 or 5 DBMC rate, we pay a Zone 2
19 intra-BMC rate, and that's economically beneficial. The
20 same thing applies to New Orleans, Louisiana, and some
21 others, of which I don't know.

22 I'm not sure whether we always pay an intra-BMC
23 rate or if we get a DBMC rate at some of the SCFs. I think
24 that's your question. I just am not sure. I could find the
25 answer for you.

1 Q Okay. When you do drop ship into a BMC, do you
2 have any choice in designating the entry Post Office for
3 purposes of the mailing?

4 A You mean to tell a post office where the stuff is
5 going?

6 Q Yes. A BMC is not a Post Office in a traditional
7 sense. I'm wondering, when you drop into a BMC, how is, for
8 example, the zone of the mailing determined? Is there an
9 entry post office other than the BMC that's used, do you
10 know?

11 A I think that was in the old days, we had a thing
12 like that. You had to have a local post office to do a DBMC
13 entry, a destination entry. We don't do that, no.

14 Q You don't. So you don't designate an entry
15 office?

16 A No, sir.

17 Q Okay. I think that had related to how you paid
18 your postage.

19 A Well, we pay right at our origin facility, so all
20 the postage is paid before the trucks leave our facilities.

21 Q Do you intend to use the OBMC rates if they are
22 approved as proposed, the original bulk mail center rates?

23 A We haven't analyzed that, and I don't think we see
24 a particular application, but I think there are other
25 mailers that would find those rates to be beneficial.

1 Q How about the destination delivery unit rates? Do
2 you know if you intend to use those if those rates are
3 adopted as approved -- as proposed?

4 A Well, we plan to use the SCF and the DDU entries,
5 yes.

6 Q Okay. Mr. Clark, have you read the testimony of
7 Steven Zweig, Z-w-e-i-g, of Quad Graphics in this case?

8 A Yes, I have.

9 Q I don't know if that partial direct business he
10 refers to in his testimony has started as of today or not.
11 Maybe you know. Do you know?

12 A I don't know.

13 Q Okay. When that starts operating, that will be a
14 competitor of CTC, won't it?

15 A Yes, it will.

16 Q Mr. Clark, could you please turn to page 8 of your
17 testimony, and specifically I would like to direct your
18 attention to lines 17 and 18.

19 A Yes, sir.

20 Q There you state that RPS shuns residential
21 delivery with a surcharge reported to be as high as \$1.50.
22 Do you see that?

23 A Yes, sir.

24 Q Do you know why RPS imposes a surcharge as high as
25 \$1.50 for residential deliveries?

1 A I guess they don't want the freight.

2 Q Do you know why they don't want the freight?

3 A I can't imagine -- well, I'm not a mind reader, I
4 don't know what their motivation is for that.

5 Q You don't have any --

6 A Just a market apparently that they don't want to
7 serve.

8 Q And you don't have any idea why they don't want to
9 serve that market?

10 A Well, not to have any idea is kind of a broad
11 question. I suppose they look at it and decide it's not
12 their market. I mean, traditionally from the day that RPS
13 started, they aggressively sought to develop the
14 business-to-business marketplace. That was their niche as
15 far as everything that I can observe from their actions, and
16 their business model is quite a bit different in the sense
17 that all of their delivery people are independent
18 contractors and own their own equipment. This is
19 information I have that I believe is correct, and --

20 Q Do you know -- go ahead, I'm sorry. Finish.

21 A So they have apparently decided that residential
22 delivery is something that they don't want to do.

23 Q But you don't know why they decided that.

24 A Well, they will accept it at a \$1.50 surcharge or
25 a \$1 -- I -- you know, RPS is a company that we don't often

1 run into, so I'm just, you know, kind of an outside
2 observer, so to speak.

3 Q Okay. But you have observed that if you pay them
4 enough, they will take the shipment and make the residential
5 delivery; is that what you just said?

6 A That's my understanding, yes.

7 Q Okay. You also indicate on lines 18 and 19 that
8 FedEx targets direct marketers who are willing to pay
9 premium prices. Do you see that?

10 A Yes, sir, I do.

11 Q And do you know why FedEx targets those who are
12 willing to pay premium prices in the case of residential
13 deliveries?

14 A Well, I use the word seems to. Seems to. So
15 again, that's just an observation, and again, that's not a
16 company that we typically confront in the marketplace, and,
17 you know, just looking at the kind of companies that FedEx
18 is doing business with and the types of services they're
19 offering, they typically are more high profile type
20 catalogs, more expense type merchandise.

21 Q So you're not really sure if they are, in fact,
22 targeting those willing to pay premium prices?

23 A Well, I use the words "seems to," so again, it's
24 just --

25 Q Okay.

1 A -- an observation.

2 Q Okay. Mr. Clark, on page 9 of your testimony, at
3 lines 3 to 4, you state that shipping charges must bear some
4 reasonable relationship to the price of the product. Do you
5 see that?

6 A Yes, sir, I do.

7 Q Do you agree that shipping rates must bear some
8 reasonable relationship to the cost of the service provided
9 by the carrier?

10 A I suppose that's a given, yes.

11 MR. MCKEEVER: Okay. That's all I have, Mr.
12 Chairman.

13 Thank you very much, Mr. Clark.

14 MR. MCKEEVER: Thank you very much, Mr. Clark.

15 THE WITNESS: You're welcome.

16 CHAIRMAN GLEIMAN: Are there any follow-up
17 questions from the bench?

18 [No response.]

19 CHAIRMAN GLEIMAN: I just have one question, Mr.
20 Clark, just so that I can understand a little better. This
21 late-filed response, pursuant to the agreement, where you
22 indicated that you use 17 local and regional carriers to
23 complete the delivery that CTC is involved in, you indicated
24 that you think you would be using the destination SCF in the
25 destination delivery unit discounts. Does this mean that

1 you would be using fewer local and regional carriers, that
2 you -- that CTC would be going directly, or are you talking
3 about the locals and regionals that you are allied with
4 using these discounts?

5 THE WITNESS: Well, there's a number of scenarios
6 that can be drawn here. And as I tried to point^{out} in my
7 response to the question, our use of these carriers is
8 tailored to specific needs of customers on specific types of
9 projects. This is not an ongoing, everyday flow of packages
10 to all these carriers. There might be one -- one or two
11 projects that comes up that we would use 17 different
12 carriers and some that we would use seven carriers that we
13 talk about there. So these are not really an alternative to
14 the Postal Service everyday type of delivery that we
15 utilize.

16 But you ask an interesting question here. And one
17 of the things that I am particularly concerned with, and I
18 get a lot of questions about, is the ability to make even
19 the destination entry rates available to more users. So if
20 shipper is in Birmingham, Alabama, for example, just to pick
21 the name out of the hat, I am not aware that that shipper
22 has any consolidator or other option available to him to use
23 these destination type rates, because we don't have a
24 presence there and I am not aware of anybody that does.

25 So one of the ideas that we have been tossing

1 around is how could be use regional carriers to collect
2 packages, especially from smaller -- shippers of smaller
3 quantities. Our typical account ships at least a truckload
4 of packages a day for nationwide delivery, but the companies
5 that might ship 50 or 100 packages, or 200 packages to
6 residential delivery throughout the United States, we really
7 haven't found a way of effectively serving those accounts.

8 And I think that when you look at what has
9 happened to residential delivery costs over the last eight
10 or nine years, 75 percent rate increase from UPS, I think
11 this is both a business opportunity and a need in the
12 marketplace. So that is a scenario under which regional
13 carriers could be a very vital factor in collecting
14 packages, accumulate and bringing in to a central location
15 from which we could -- or somebody could utilize DBMC rates
16 or DSCF rates to provide a lower cost to those companies.

17 And I think it is important that the Commission
18 really appreciate what kind of a marketplace we are talking
19 about here.

20 And if I could just maybe get off the track, one
21 of the things I did was, after I completed my testimony, I
22 sent it to a bunch of my customers and asked them for their
23 response to it. Was it on the mark, so to speak? And I got
24 a couple of letters back that I would like to just read, if
25 you --

1 CHAIRMAN GLEIMAN: I think that I am going to stop
2 you there.

3 THE WITNESS: Okay. Fine.

4 CHAIRMAN GLEIMAN: That way I don't have to rule
5 on an objection that is likely to come. And I know the
6 Postal Service would object because they always object to
7 witnesses who solicit letters outside of the system. We
8 have had that come up a couple of times in this proceeding
9 already. So if Mr. McKeever didn't object, I am sure the
10 Postal Service might very well, because I know how
11 consistent they like to be on their objections over time.

12 But I appreciate -- I understand a little bit
13 about what you are talking about and you did straighten me
14 out a little bit in terms of the fact that, you know, this
15 could be a boon on one end of the system, certainly to the
16 regional and local carriers, and I was concerned about the
17 impact of the competitive effects on those local and
18 regional carriers, as a consequence of Destination Delivery
19 and Destination SCF discounts.

20 My colleague has a question, I believe.

21 COMMISSIONER LeBLANC: Mr. Clark, I just want to
22 have a follow-up, if I can, on the Chairman's question, and
23 then one other question, I guess in that same regard. How
24 much does this happen that you actually use local or
25 regional carriers, as a percentage of your business? I mean

1 17 seems to be a pretty large number, but then it's hard to
2 --

3 THE WITNESS: I should probably --

4 COMMISSIONER LeBLANC: I mean are we talking half
5 the time here, or --

6 THE WITNESS: Oh, no. No, not at all. I should
7 probably have pointed out that, you know, some of these
8 carriers we would use once, and they wouldn't meet our
9 standards. So the real number is seven, that basically I
10 have qualified.

11 The question was, How many have you used during
12 the whole year? And so I thought, well, if I ship five
13 packages or 10 packages, that would be one of the 17. But
14 on an ongoing basis, we are using seven carriers. And, you
15 know, this is a relatively small percentage of our business,
16 I would say less than 5 percent, 3 to 5 percent.

17 COMMISSIONER LeBLANC: One other question then, if
18 I can. Are you familiar with Publishers Express? It was an
19 alternative delivery system that was --

20 THE WITNESS: Was.

21 COMMISSIONER LeBLANC: Was.

22 THE WITNESS: Okay. Yeah, I remember that.

23 COMMISSIONER LeBLANC: And the Postmaster General
24 made a speech a while back and it was kind of, in effect,
25 talking about putting him out of business. If they were to

1 put any of these local carriers out of business, how would
2 that effect want you want to do?

3 THE WITNESS: If the Postal Service put these
4 companies out of business?

5 COMMISSIONER LeBLANC: Yes.

6 THE WITNESS: Well, a regional carrier typically
7 meets a very, very specific need of companies within its --
8 within its region. And they are able, and have developed a
9 business, and this is not a big business, but they have
10 developed a business based on providing a service that
11 nobody else can provide. For example, in our home state of
12 Minnesota, a carrier can pick up a package on Wednesday
13 afternoon in Rochester, Minnesota and deliver it in Duluth,
14 Minnesota on Friday morning, the next morning. And they do
15 this because they have a system designed just for that
16 specific purpose.

17 UPS, FedEx, RPS can't match that type of service.
18 And this is where those businesses have found a niche and
19 developed a need. They deliver things like lottery tickets
20 and different items like that, and, again, it is not a big
21 -- a big business. And these companies never have, in my
22 mind, ever considered the Postal Service a competitor for
23 their business. So I would say they are kind of isolated
24 from what goes on in this type of a rate hearing.

25 COMMISSIONER LeBLANC: Well, let's hope maybe they

1 can stay that way. But thank you very much.

2 THE WITNESS: Thank you.

3 CHAIRMAN GLEIMAN: They don't consider the Postal
4 Service a competitor because the Postal Service can't
5 provide the same level of service within the State of
6 Minnesota, giving the example?

7 THE WITNESS: Well, it's not that they -- it's
8 their users that don't consider the Postal Service as a
9 competitive alternative to the type of service that they
10 need.

11 I mean, these companies deliver things like auto
12 parts and, you know, different items like that. You know,
13 typically their market may be medical supplies, things of
14 that nature.

15 CHAIRMAN GLEIMAN: Now, I'm a little confused
16 because -- well, just slightly. This is not the kind of
17 additional volumes that you would see -- you don't see any
18 additional business of this type being generated as a
19 consequence of these discounts that are being proposed.

20 THE WITNESS: Additional business for the Postal
21 Service?

22 CHAIRMAN GLEIMAN: Yes.

23 THE WITNESS: From regional carriers or as an
24 alternative to regional carriers?

25 CHAIRMAN GLEIMAN: You were the one who said that

1 you saw more use -- I understood on the pick up end, you
2 know, where it was perhaps going into a --

3 THE WITNESS: Right.

4 CHAIRMAN GLEIMAN: -- you know, a wider, regional
5 or national distribution system. And I understand how the
6 volumes could be generated on that end, but on the delivery
7 end --

8 THE WITNESS: Okay.

9 CHAIRMAN GLEIMAN: -- with DDU and DSCF,
10 especially DDU discounts, would you see Postal Service,
11 parcel post being more competitive with the regional
12 carriers and the local carriers for those overnight auto
13 part deliveries, for example?

14 THE WITNESS: Well, a couple of points there.
15 Again, in looking at the whole context of the rate case you
16 talked about regional carriers as being able to bring in
17 volume and then we looked at volumes and delivery units, a
18 DDU type entry. And for some of the more remote delivery
19 offices we're kind of modeling, how could we use the
20 regional carrier to deliver into those Postal facilities to
21 take the -- you know, whether the economics of the discount
22 offset the costs of the delivery.

23 CHAIRMAN GLEIMAN: I understand.

24 THE WITNESS: And there are some specific examples
25 where that might work. We don't know yet. We don't know

1 what these rates are going to be, so it's kind of idle
2 speculation in that regard. So we see that that is a
3 potential additional business to these ~~carries~~ carriers.

4 One of the things that we do as a company that
5 makes us a good partner with these companies is that we
6 bring packages in from outside of the region where they're
7 not -- where they otherwise would not have a market for the
8 deliveries that we do at the present time. Which, you know,
9 have these specific types of requirements.

10 But I really don't see, based on the rules and the
11 mechanics and so on, that a company that's presently using a
12 regional carrier within the State of Minnesota or within the
13 State of Texas, would, as an alternative, take those
14 packages into an SCF or DSCF or DDU and have them delivered.

15 I don't know, maybe this is kind of a poor
16 example, but the Postal Service tried something like this
17 with a program called FASTNET and that was an overnight
18 delivery thing and it just flopped. So they never found a
19 demand for that. We participated in that program and tried
20 to develop some of it, but it just didn't work.

21 CHAIRMAN GLEIMAN: One final question, if I may,
22 you talked about the economics of the drop shipping and how
23 deeply into the system one would drop ship.

24 THE WITNESS: Right.

25 CHAIRMAN GLEIMAN: And you talked about the size

1 of the discount versus your costs. If I'm not mistaken, we
2 have testimony from several witnesses for another party in
3 this case that indicates that we should take into account
4 not the costs avoided by the Postal Service as a consequence
5 of the work sharing that's done by a company such as yours,
6 but rather the cost to the shipper that your company charges
7 for carrying that package outside or deeply into the system.
8 And that perhaps our discounts ought to be set based on a
9 shipper's cost that that shipper incurs using the CTC or
10 some other carrier as opposed to costs avoided by the Postal
11 Service.

12 If you were sitting where I'm sitting, would you
13 find that to be a viable economic approach to set discounts
14 based on the costs that the shipper incurs as opposed to the
15 costs that the Postal Service avoids?

16 THE WITNESS: It sounds kind of ridiculous to me.

17 CHAIRMAN GLEIMAN: Thank you, sir.

18 COMMISSIONER LeBLANC: Sounds what, sir?

19 THE WITNESS: Ridiculous.

20 COMMISSIONER LeBLANC: Oh.

21 CHAIRMAN GLEIMAN: Thank you.

22 THE WITNESS: If I may comment further, looking at
23 the level of discounts that have been proposed in this rate
24 case and ~~are~~^{our} anticipated investment and cost and so on
25 that's going to be necessary, the burden is on us to make it

1 work. And if we can't make it work, you know, there's a few
2 other discounts at the Postal Service that nobody uses
3 either. So these won't get used.

4 What I'm encouraging the Rate Commission to do is
5 to recommend a rate that will incent the market to make the
6 investments and to drive costs out of the system that will
7 bring these packages in. And it's not a -- no, it's not a
8 competitive zero sum game. This is a rapidly-growing market
9 for small parcel deliveries and it's going to continue
10 because it's driven by basic logistical evidence that
11 there's costs that can be driven out.

12 CHAIRMAN GLEIMAN: I'm convinced that it's a
13 growing market if only because my wife is a mail order
14 junkie.

15 THE WITNESS: Well, you know, if I may comment on
16 that --

17 [Laughter.]

18 CHAIRMAN GLEIMAN: I probably have commented on it
19 more than I should have.

20 THE WITNESS: Right. Well, you know, you just
21 take books, for example, we're dealing with companies that
22 sell books over the Internet. And, you know, they're trying
23 to ship three or four million packages. These were all sold
24 out of retail stores two or three years ago and now all of a
25 sudden they're going to be small parcels.

1 CHAIRMAN GLEIMAN: The world is changing.

2 THE WITNESS: You bet.

3 CHAIRMAN GLEIMAN: Any other questions from the
4 bench?

5 [No response.]

6 CHAIRMAN GLEIMAN: If not, that brings us to
7 follow-up as a consequence of questions from the bench. If
8 there are none, then redirect.

9 Mr. Olson, would you like some time with your
10 witness?

11 MR. OLSON: Probably less than 30 seconds.

12 CHAIRMAN GLEIMAN: You can have 30 seconds, or
13 even a little bit more if you would like.

14 [Recess.]

15 MR. OLSON: Mr. Chairman, thank you. We do not
16 have any questions.

17 CHAIRMAN GLEIMAN: If that is the case, then Mr.
18 Clark, I want to thank you. We appreciate your appearance
19 here today and your contributions to our record. It is
20 always nice, and I don't mean this as a slap at any
21 professional economist, because they are good and they help
22 me understand and get smarter, but it is always nice to have
23 a real businessman up here. We do appreciate your help.

24 Thank you. And if there is nothing further, you
25 are excused.

1 THE WITNESS: Well, thank you very much. I
2 appreciate your work, too.

3 [Witness excused.]

4 CHAIRMAN GLEIMAN: I think at this point, before
5 we move on to the next witness, we will take a little more
6 than a 10 minute break. Come back at five of the hour, and
7 at that point, we will pick up with Mr. Threadgill,
8 appearing on behalf of the American Public Power
9 Association.

10 [Recess.]

11 CHAIRMAN GLEIMAN: Our next witness, Eugene
12 Threadgill, is appearing on behalf of the American Public
13 Power Association. It is my understanding that Mr.
14 Threadgill is not assisted by separate counsel. Under these
15 circumstances, the Office of Consumer Advocate has provided
16 assistance to facilitate the receipt of testimony, and I am
17 sure that our --

18 MR. CORCORAN: Mr. Chairman.

19 CHAIRMAN GLEIMAN: Oh, my goodness gracious, we
20 have had a change in plans.

21 MR. CORCORAN: I have stepped -- I am Brian
22 Corcoran and I have stepped into that breach.

23 CHAIRMAN GLEIMAN: Well, thank you, Mr. Corcoran.
24 We always appreciate assistance from members of the Bar.

25 MR. CORCORAN: Well, you're welcome.

1 CHAIRMAN GLEIMAN: In situations like this.

2 Mr. Threadgill, could you please stand and raise
3 your right hand and I will swear you in at this point.

4 Whereupon,

5 EUGENE E. THREADGILL,

6 a witness, was called for examination by counsel for the
7 American Public Power Association and, having been first
8 duly sworn, was examined and testified as follows:

9 CHAIRMAN GLEIMAN: Please be seated.

10 Counsel, if you would please proceed with your
11 witness' testimony.

12 MR. CORCORAN: Thank you, Mr. Chairman.

13 DIRECT EXAMINATION

14 BY MR. CORCORAN:

15 Q Mr. Threadgill, do you have before you a 20 page
16 document entitled "The Direct Testimony of Eugene E.
17 Threadgill on Behalf of the American Public Power
18 Association."

19 A Yes.

20 Q Which has been identified as APPA-T-1. And
21 attached to is -- you have one exhibit, Exhibit APPA-1. Was
22 this testimony and exhibit prepared by you or under your
23 supervision?

24 A Yes, it was.

25 Q If these --

1 A Is this on?

2 Q Do you have any --

3 A Is my microphone on?

4 CHAIRMAN GLEIMAN: Yes, it is.

5 THE WITNESS: Okay. Go ahead. Go ahead.

6 BY MR. CORCORAN:

7 Q Do you have any corrections or additions to this
8 testimony?

9 A No, I don't.

10 Q If the questions in APPA-T-1 were asked of you
11 today, would your answers be the same --

12 A Yes.

13 Q -- as contained in the document? Thank you.

14 MR. CORCORAN: Mr. Chairman, I move for the
15 admission into evidence of "The Direct Testimony of Eugene
16 E. Threadgill on Behalf of the American Public Power
17 Association."

18 CHAIRMAN GLEIMAN: Are there any objections?

19 [No response.]

20 CHAIRMAN GLEIMAN: Hearing none, Mr. Threadgill's
21 testimony and exhibits are received into evidence and I
22 direct that they be accepted into evidence and transcribed
23 into the record at this point.

24 [Direct Testimony and Exhibits of
25 Eugene E. Threadgill, APPA-T-1, was

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received into evidence and
transcribed into the record.]

APPA-T-1

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

DIRECT TESTIMONY OF
EUGENE E. THREADGILL
ON BEHALF OF THE
AMERICAN PUBLIC POWER ASSOCIATION

December 12, 1997

I. PURPOSE OF TESTIMONY

This testimony presents the position of the American Public Power Association (APPA) opposing all of the proposed increases in post card rates, and requesting reductions in all post card rates (single-piece, presorted, and automation).

APPA is the national service organization for the nation's more than 2,000 municipal and other State and local government-owned electric utilities. These are not-for-profit entities owned by the citizens of the communities which they serve. Their objective is to provide secure electric service to their owners and customers at the lowest possible cost. In order to keep operating costs to a minimum, many of those municipal utilities, sometimes referred to as "munis", use post cards for billing purposes.

In addition to the municipal electric utilities, many county, city, and town governments also provide gas, water, and sewage services to their residents, and many use post cards to bill customers for those services. In addition, many small businesses use post cards for billing purposes; for example, some of the distributors of the Washington Post use post cards to bill their customers. There is a broad array of governmental and commercial entities which provide basic services to the public at their lowest possible cost. These public service entities will be severely impacted by the proposed increases in post card rates.

It is very much in the national public interest to keep the costs of the basic postal services from escalating, and to continue to make available a very low cost service for small businesses to bill their customers for services rendered. Clearly, the concerns

1 expressed by APPA regarding the proposed increases in post card
2 rates are much broader than the mere interests of its members.

3 Post card billers have already suffered major recent increases
4 in their postal costs, as a result of the reclassification in
5 Docket MC95-1; and the USPS proposes, in this case, to impose a
6 second round of increases which will adversely impact the customers
7 who receive electricity, gas, water and sewer services from
8 municipally owned service providers, and other small businesses.
9 It appears that the USPS has an undisclosed objective to force
10 business users of post cards to stop using cards and convert to
11 envelopes, which will generate more profits for the USPS. In the
12 Mail Classification case, Docket No. MC95-1, the USPS terminated
13 all of the post card presort categories except a "Basic" category,
14 and put into effect a series of Automated Presort categories. The
15 eligibility conditions for Automated Post cards impose very severe
16 obstacles to automation which have prevented most of the mailers,
17 which use post cards for billing, from having access to the
18 Automated rate categories. (See Exhibit APPA-1, p. 1). These
19 Automation eligibility obstacles, combined with the abolition of
20 the 5-digit and carrier presort rate categories, resulted in a very
21 substantial, and unanticipated, postal rate increase in 1996 for
22 most post card billers.

23 The municipal electric utilities, and the government agencies
24 providing water and sewer services, serve all users in a market
25 area, and have a very high density for their billing mail.
26 Consequently, most of them were able to use the carrier route

1 presort rate of 16 cents, prior to reclassification. As a result
of reclassification's elimination of the carrier presort rate
3 category, and the imposition of conditions which effectively bar
4 most post card bills from eligibility for automation categories,
5 many of the users of post cards for billing experienced a dramatic
6 rate increase in 1996 - 12.5% - from 16 cents to the Basic Presort
7 rate of 18.0 cents. Users of envelopes for billing could convert
8 from carrier presort to automated carrier sort, but most post card
9 billers had no such option. Consequently, no other category of
10 mail service experienced such a dramatic increase in postal costs
11 as a result of reclassification.

12 Now, the USPS is proposing an overall increase in letter rates
13 of 3.2%; a 5% increase in the single-piece post card rate, from 20
14 to 21 cents; a 5.6% increase for post card billers using Regular
15 Presort (18 cents to 19 cents); and greater increases for automated
16 cards, increases that will further injure the public. (See USPS
17 Exh.30 D). The present single-piece rate for post cards is
18 excessive by the statutory standards established by the Postal
19 Reorganization Act; and the Basic Presort rate is also excessive by
20 those statutory standards. The Commission should reject both the
21 proposed increase in the single-piece post card rate, and this
22 proposed second increase in the presorted post card rate.

23 In fact, the existing rates for post cards are excessive and
24 should be reduced, not increased. The Commission should restore
25 something approximating the long-standing relationship between the
26 "penny" post card rate and the historical 2 cent letter rate. As

1 shown below, under Rate History, present post card rates are far
2 out of line. Further, the Commission should direct the USPS to
3 consider whether some form of mitigation of automation conditions
4 for post cards is possible and should be undertaken in order to
5 allow presorted post cards to qualify for automation rates.

6 II. RATE HISTORY
7 RESTORE THE POSTCARD/LETTER RELATIONSHIP

8 USPS witness David Fronk testifies that, since the passage of
9 the Postal Reorganization Act, the basic first-class letter rate
10 has increased from 8 cents to 32 cents, and the post card rate has
11 risen from 6 cents to 20 cents. That abbreviated history fails to
12 disclose that the 1970 postcard/letter relationship was totally out
13 of line with the historical relationship between those two kinds of
14 mail. Those numbers fail to describe the very significant changes
15 in the relationship between letters and cards that have occurred
16 over the years. Congress and the Postal Service have, in recent
17 years, pressed to increase post card rates disproportionately to the
18 letter rates. The long standing, traditional, "penny post card",
19 in effect for about 65 years, from 1886 until 1918 and from 1920 to
20 1952, was only one-half or one-third of the letter rate. The
21 letter rate was increased to 3 cents and the post card rate to 2
22 cents in 1918, but both rates were returned to their prewar rates
23 of two cents and a penny in 1920. In 1925 the post card rate was
24 raised to 2 cents, but in 1929 it was returned to a penny. In
25 1933, the letter rate was increased to 3 cents, but the post card
26 rate was held at a penny. A complete history of the post card
27 rate, and the single-piece letter rate, is displayed on the next page.

FIRST-CLASS MAIL RATE HISTORY
(Letter Rates in cents per first ounce)

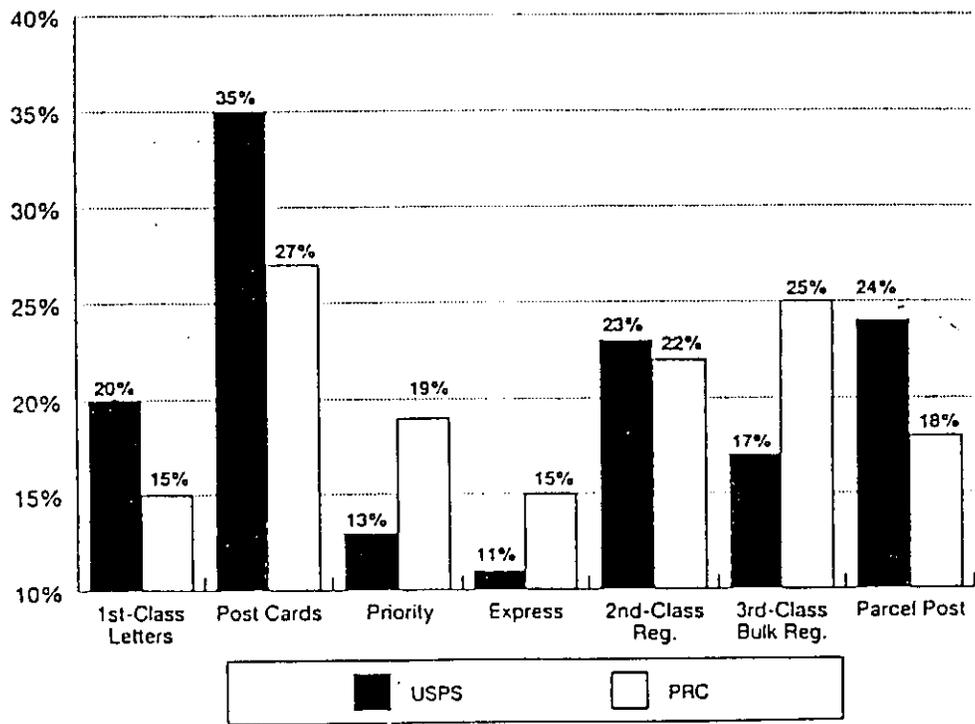
	<u>YEAR</u>	<u>POST CARD</u>	<u>LETTER</u>	<u>POST CARD/LETTER %</u>
3				
4	1886	1	2	50
5	1887	1	2	50
6	1888	1	2	50
7	1889	1	2	50
8	1890	1	2	50
9	1891-1899	1	2	50
10	1900-1917	1	2	50
11	1918-1919	2	3	67
12	1920	1	2	50
13	1921-1932	1	2	50
14	1933	1	3	33
15	1934	1	2	50
16	1935	1	2	50
17	1936	1	2	50
18	1937	1	2	50
19	1938	1	2	50
20	1939	1	2	50
21	1940	1	2	50
22	1941	1	2	50
23	1942	1	2	50
24	1943	1	2	50
25	1944	1	3	33
26	1945	1	3	33
	1946	1	3	33
	1947	1	3	33
29	1948	1	3	33
30	1949	1	3	33
31	1950	1	3	33
32	1951	1	3	33
33	1952-1958	2	3	67
34	1959-1962	3	4	75
35	1963-1967	4	5	80
36	1/7/68	5	6	83
37	5/16/71	6	8	75
38	3/2/74	8	10	80
39	9/14/75	7	10	70
40	12/31/75	9	13	69
41	5/29/78	10	15	67
42	3/22/81	12	18	67
43	11/1/81	13	20	65
44	2/17/85	14	22	64
45	4/3/88	15	25	60
46	2/3/91	19	29	66
47	1/1/95	20	32	63
48	1998	Recommended Rates:		
49	USPS	21	33	64
50	APPA	18	33	55

1 In 1952 the "penny" post card rate was terminated, but for
about 57 years the post card rate had been 1/2 of the letter rate,
3 and for 9 years it had been 1/3 of the letter rate. In the period
4 1952 to 1970, the historical letter/post card relationship was
5 changed drastically. Those rates were subsidized by taxpayers, and
6 the letter rate was over subsidized. In 1970, Congress enacted the
7 Postal Reorganization Act, which directed that the Postal Service
8 become self sustaining, and established the criteria for
9 determination of fair and equitable rates. In the first Postal
10 Rate case, Docket No. R71-1, the letter rate was increased to 8
11 cents and the post card rate to 6 cents. In R74-1 the letter rate
12 was increased to 10 cents and the post card rate temporarily to 8
13 cents, but in the final order, the post card rate was rolled back
14 to 7 cents. In R76-1 the letter rate was increased to 13 cents,
and the post card rate to 9 cents. In Docket Nos. R77-1, R80-1,
16 and R84-1, the USPS sought 2 cent increases in the letter rate and
17 a one cent increase in the post card rate. In R87-1, there was a
18 3 cent increase in the letter rate and a one cent increase in the
19 post card rate. In R90-1, the USPS sought a 5 cent increase in
20 both the letter and post card rates, a proposed 20% increase in the
21 letter rate and a 35% increase in the post card rate. The
22 Commission rejected the proposed 5 cent increases in the letter and
23 post card rates, but recommended 4 cent increases in both
24 subclasses, amounting to a 15% increase in the letter rate, and a
25 27% increase in the card rate, which was the highest percentage
26 rate increase granted that year. (See Chart on the following page).

CHARTS FROM CHAIRMAN HALEY'S PRESENTATION
OF DOCKET R90-1 RECOMMENDED DECISION

January 4, 1991

Recommended Rate Increases



1 When the USPS requested a 20 cent post card rate in Docket No.
2 R90-1, APPA was so concerned that it, for the first time,
3 intervened in a postal proceeding and opposed that increase.
4 Although the Commission compromised with a 19 cent rate, that was
5 still the largest percentage increase applied to any subclass of
6 mail and was very damaging to post card users. In the last omnibus
7 rate case, Docket No. R94-1, the USPS proposed an approximately 10%
8 increase across-the board, which resulted in the present 20 cent
9 post card rate.

10 The driving force behind all increases in postal rates is
11 inflation. The Postal Service is a very labor intensive service
12 industry. Its contracts with the postal unions require annual cost
13 of living adjustments, and the salaries of supervisory employees
14 are also adjusted annually to reflect COLA. Those increases in
15 labor costs, offset by any increases in productivity, must be
16 passed on through increases in postal rates. But the proper policy
17 to recover the cost of inflation is an across-the-board percentage
18 increase in all rate classes, similar to that implemented in R94-1,
19 not the very discriminatory increases implemented in R90-1, which
20 took post card rates completely out of line. The one cent increase
21 proposed in this case for post card rates compounds the inequitable
22 base established in R90-1, and it should be totally rejected.

23 As the tabular history of the post card and letter rates (page
24 5, supra) clearly demonstrates, throughout most of postal history,
25 the post card rate was 50% or less of the letter rate. An 18 cent
26 post card rate would restore that historical relationship.

1 The policy implemented by the USPS in Docket No. R90-1, and
2 repeated in the current case, of seeking parallel "cent" increases
3 in the single-piece letter and post card rates is an adverse and
4 discriminatory policy. The four cent increases implemented in
5 Docket No. R90-1 resulted in a completely out-of-line post card
6 rate. Now, the USPS is seeking a 3% increase in the letter rate
7 and another out-of-line 5% increase in the post card rate.

8 In Mail Reclassification, Docket No. MC95-1, the Commission
9 compounded the discriminatory single-piece rates by accepting the
10 USPS proposal to terminate the 17 cent 3-digit presort rate
11 category, the 16.3 cent 5-digit presort rate category, and the 16
12 cent carrier route presort category, and to increase the "Basic
13 Presort" rate from 17.9 to 18 cents. For mailers which previously
14 had used the 16 cent carrier route rate, the increase to 18 cents
15 was a major increase and burden. Most presort post card mailers
16 experienced cost increases in their postal costs which other
17 mailers did not incur.

18 II. THE RATE MAKING CRITERIA DO NOT SUPPORT
19 AN INCREASE IN THE POST CARD RATE

20 Section 3622 (b) of the Postal Reorganization Act provides the
21 Commission with nine criteria for evaluating postal rate levels.
22 The relationships of those criteria to the proposed increases in
23 postcard rates are discussed below. A careful assessment of what
24 is fair and equitable, an analysis of the relative values of the
25 communication services provided by letters and post cards, an
26 examination of the direct and indirect costs, the alternatives
27 available, and the effect upon the public, demonstrate that the

1 proposed post card increases are not justified, and that the
statutory criteria mandate post card rate reductions.

3 A. FAIRNESS AND EQUITY

4 In this case, the USPS proposes an increase of 3.1% for
5 single-piece letters, and an increase of 5% for single-piece post
6 cards. For Presorted letters and cards the proposed increases are
7 5.1% for letters and 5.6% for cards. For the automated categories
8 of post cards, the proposed increases are monumental. As an
9 examination of the relative values and costs of letters and post
10 cards demonstrate, the present 20 cent card rate is excessive by
11 the statutory criteria, and that rate should be reduced. In view
12 of recent multi-billion dollar USPS profits, any revenue loss to
13 the USPS that would result from reducing the present 20 cent card
14 rate to 18 cents would be negligible. The demand price elasticity
15 of cards is so great that the proposed increase of one cent could
16 bring about a significant decrease in demand and a net loss in post
17 card revenue; a two cent rate reduction could significantly
18 increase demand and possibly generate a revenue increase.

19 B. VALUE OF SERVICE

20 If one thing is crystal clear, it is that the "value of
21 service" of a post card is but a tiny fraction of the value of
22 service of a letter, certainly not the 60+ percent implied by the
23 proposed rate relationships.

24 1. Privacy - The primary difference between First-class
25 Letters and Standard Letters is that First-class letters are
26 private and sealed against inspection. But a post card, like

1 Standard mail, is open to public view; a post card provides no
 2 possibility of private communication. A competitor of a mailer
 3 could gain access to a post card users bills and use that
 4 information for competitive purposes. Clearly, privacy has value
 5 in the economic world, and the post card has no privacy-value.

6 2. **Communication Quantity** - The quantity of information that
 7 can be conveyed by a one ounce letter is from 6 times, for a one
 8 page double-sided letter (187 sq.in.) to 24 times, for four double-
 9 sided pages, as much as information that can be written on a 3.5"
 10 x 6" post card (31 sq.in.). Following the increase in the card
 11 rate resulting from reclassification, some APPA members decided
 12 that the greater value of letter communication was sufficient to
 13 propel them from card to letter bills. A communication which has
 14 from 4 to 17 percent of the capacity of a letter should not have a
 15 postal rate that is 60+ percent of the letter rate.

16 3. **Demand Price Elasticity** - one of the most significant
 17 quantitative measures of value of service used in establishing cost
 18 markups and coverage is the price elasticity of demand. (USPS-T-30,
 19 p.4) As Witness O'Hara testifies, the lower the own-price
 20 elasticity, the higher is the value of the service provided. The
 21 "Long-run Own-Price Demand Elasticities", as reported by witness
 22 O'Hara (USPS-T-30 p.5) are as follows:

23	First-class letters	-0.232
24	Private cards	-0.944

25 Private cards (those not printed by the USPS) are 4 times as
 26 price elastic as First-Class letters; that indicates that the

1 service provided for post cards is in the range of one-fourth of
the letter value. Utilities which must bill their customers for
3 services are moving slowly to electronic communications. Post card
4 billers also have the option to pay more and shift to an automated
5 letter billing. Recent contacts with APPA members have indicated
6 that some of them are surrendering to the Postal Service's pressure
7 and are switching to letters for billing purposes, even though that
8 requires a substantial increase in charges to customers, or a loss
9 in the net revenue from the services provided. The dramatic
10 difference in demand price elasticity clearly requires a far lower
11 cost coverage for post cards than for letters.

12 These three aspects of "value" - privacy/lack of privacy,
13 quantity of communication, and tremendous differences in demand
14 price elasticity - which should be the most significant criteria
used in setting prices for postal services, demonstrate that a card
16 does not have 60+% of the value of a letter. The proposed
17 increases in the rates for post cards are totally out of line.

18 III. WEIGHT MAKES A DIFFERENCE

19 Six days a week carriers trudge from door to door carrying
20 heavy bags of mail. On a given day, a carrier may be delivering
21 electric, gas, water or sewer bills to the 400+ homes on the
22 carrier's route. If those bills are in envelopes which contain a
23 bill, a return envelope, and advertising, which runs the letter up
24 to one ounce, those letters would weigh 10 or 12 times as much as
25 post card bills. The USPS has recognized that weight makes a
26 difference in setting prices for its services. In 1991, the USPS

1 made available a half-ounce rate for mail to Mexico. The Assistant
2 Postmaster for International Affairs stated that this would allow
3 letters up to 2 pages (about 5 times the communication quantity of
4 a postcard) to be mailed for 35 cents.

5 IV. IMPACT UPON THE PUBLIC

6 Post cards, throughout our nation's history, have always been
7 the lowest cost means of communication between citizens of the
8 United States. The dramatic increases in the post card rate, from
9 the traditional "penny" post card to the present 20 cent card, have
10 severely impacted the nation's use of that low cost means of
11 communication. The Commission should show its concern for the
12 public by requiring a reduction in postcard rates in this case.

13 As previously explained, the governmental organizations which
14 provide basic services to the public - electricity, gas, water, and
15 sewer - are at the center of our most essential national
16 infrastructure. It is mandatory that the costs of those basic
17 infrastructure services be kept to an absolute minimum, and that
18 they must not be compelled to subsidize other commercial services.

19 The increases in post card rates that were allowed in Docket
20 No. R90-1 placed a heavy burden upon the public's use of post
21 cards. And the reclassification in Docket No. MC95-1 imposed
22 another heavy burden on governmental and commercial use of an
23 essential means of communication to bill customers for essential
24 services provided to the public. The Commission can, in this case
25 restore the confidence of the public in government, and the
26 availability of an inexpensive means of essential communication.

1 The Commission should exercise its authority by reducing both the
Single-piece and the Basic Presort post card rates.

3 V. COST COVERAGE

4 The final rate decision, which is made after evaluating the
5 value of service, elasticity of demand, and other statutory
6 criteria, is the "cost coverage" to be assessed. In this case, the
7 USPS has calculated "cost" as the volume variable cost, and the
8 calculated cost coverage is the projected revenue from a category
9 divided by its volume variable cost. In the case of "worksharing"
10 post cards (the aggregate of presorted and automated cards) the
11 projected cost coverage is 267.11%. (Exhibit USPS-30B, p. 43) That
12 is a cost coverage only slightly below the 282.29% cost coverage
13 for worksharing letters, and far above any other category of
14 service (other than "mailgrams"). Even if the discounts for
worksharing letters can be justified, which appears to be doubtful,
16 given the much more limited value, and much greater price
17 elasticity, of worksharing cards, the 267.11% cost coverage is
18 totally unjustified.

19 USPS witness Sharon Daniel (USPS-T-29) reports the estimated
20 total Unit Costs of Single-Piece cards to be 11.429 cents, and
21 Presort cards to be 7.7568 cents. Other witness will address the
22 validity of the USPS cost analyses, but those costs are accepted
23 for the purpose of this analysis. The USPS proposes a 21 cent
24 single-piece post card rate, which would represent a 9.6 cent
25 contribution to system costs, a 83.37%, mark-up. The projected
26 total unit cost of Presort cards is 7.7568; the proposed rate is 19

1 cents, producing a contribution to system costs of 11.2 cents, a
2 145% mark-up. That is simply a staggering and out-of-line rate for
3 a mail piece of very low value and very high elasticity, and which
4 imposes very little cost on postal operations. It is undeniable
5 that bulk, presorted mail imposes far less cost burdens on postal
6 system operations than single-piece mail. Presorted mail makes no
7 use of the retail postal system for the purchase and sale of
8 stamps; presorted mail bypasses almost all of the out-going mail
9 processing operations. Consequently, the unit per-piece
10 contribution to system costs by presorted cards should be less than
11 the unit per-piece contribution by Single-piece cards. The unit
12 contributions proposed by the USPS are totally out of line.

13 VI. REVENUE IMPACT

14 The revenue impact of these recommended reductions in across-
15 the-board post card rates should be negligible. Witness O'Hara
16 projects Before-Rate-increase Total Cards revenue for Fiscal 1998
17 of \$1,059,843,000 and After-Rates total revenue of \$1,088,979,000.
18 That represents an increase in revenue of only \$29,136,000. Given
19 the elasticity of demand for post cards, a rate reduction might
20 actually generate an increased volume, and an increase in post card
21 revenue. With the USPS seeking a total increase in revenue of
22 \$2,242,407,000 (Exhibit USPS-30 A and B), even if there were a loss
23 of post card revenue of \$29 million, that loss would amount to a
24 revenue reduction of about 1.3%. The benefits to the public of a
25 reduction in post card rates would be very substantial. Any loss
26 of revenue to the USPS would be trivial.

1 VII. PRESENT AUTOMATION CONDITIONS ARE BURDENSOME

2 The standard post card used for billing customers for services
3 rendered is 3.5" x 6", with a perforated vertical tear-strip that
4 separates the card into a 3.5" portion containing the customer's
5 billing information, and a 2.5" address stub to be returned to the
6 mailer. That address stub is too narrow to contain the complete 11
7 digit barcode required for eligibility for automation rate
8 categories. (See Exhibit APPA-1, p. 1) Consequently, many users of
9 post cards for billing and other business purposes have not been
10 able to qualify their post cards for automation rates.

11 Exhibit APPA-1, p. 2 shows two cards recently designed to meet
12 automation eligibility standards. Card A has a 3.75" address stub,
13 wide enough for the full barcode, and a 2.25" portion containing
14 billing information. However, the 2.25" portion might not be
15 sufficient to accommodate the full information required by some
16 utilities. Card B has a horizontal strip across the bottom, which
17 permits the full barcode to be printed below the address. However,
18 such a configuration requires a complete revision of the computer
19 program and printer that prints the bills.

20 There appear to be two other possible methods which might be
21 employed to allow post card billers to meet automation standards.
22 (See Exhibit APPA -1, p.3) First, (Card C) the length of a
23 permissible post card could be extended to 7 inches, to allow the
24 usual 3.5" information stub and a 3.5" address stub. Second, on
25 Card D, the first five digits of the bar code are omitted. Local
26 electric, water, and sewer utilities presort most of their bills

1 and deliver their mail to local 5-digit destination postoffices.
Under those circumstances, printing the entire 11 digit barcode
3 across the stub of a post card may be unnecessary and unduly
4 burdensome. Printing the last 6 digits might be sufficient for
5 automated sorting to carrier routes and walk sequence.

6 Some compromise could be reached, as has been done in the
7 past. For example, in Docket No. MC73-1, the Postal Service
8 proposed to increase the minimum height of a postcard from 3" to
9 3.5" in order to implement its new letter sorting machines (LSM).
10 At that time, before extensive use of computers, the standard post
11 card used for billing by utilities was a 3.25 inch punch-card
12 printed by a reproducer. The Council of Public Utility Mailers
13 (CPUM), which then represented electric and natural gas utilities,
14 had many members which still used that old punch-card for billing,
and the prospect of increasing the minimum size for eligible cards
16 would have disastrous consequences, if implemented immediately. In
17 response to CPUM's opposition, the change-in-size issue was
18 postponed, but was renewed by the USPS in MC77-2. In that case,
19 CPUM pointed out that most utility post cards were sorted to
20 carrier routes and were delivered to destination postoffices and
21 carriers without any requirement for LSM processing. A separate
22 proceeding, Docket No. MC79-1, was established, and, in that case,
23 a compromise was worked out that allowed the 3.25" cards to
24 continue to be accepted until June 2, 1982, so long as they were
25 presorted to carrier routes.

26 Some similar compromise could be reached in this case. As

1 explained, post cards presorted to 5-digits, or to carrier routes,
do not need to go through the first rounds of automation processing
3 at the outgoing sectional center that sends mail to 3 and 5-digit
4 destinations. At the destination centers, where mail is sorted by
5 automation equipment to carriers and to walk sequences, the first
6 five digits of the automation code are irrelevant. Therefore, post
7 cards delivered to destination offices should be eligible for 5-
8 digit and carrier sorted automation rates with only the last 6
9 digits of barcodes in the address. The alternative, possibly a
10 3.5" x 7" card, should also be explored.

11 VIII. SUMMARY

12 The Commission should take into consideration past actions by
13 the USPS, which have resulted in a Single-piece post card rate that
14 is quite excessive when compared with the historical relationships,
and the relative values, of letters and post cards, and the
16 automation reclassification, which resulted last year in a major
17 rate increase being imposed upon post card billers. The Commission
18 should provide some relief for all users of post cards in the
19 current rate case. As shown in the following table, our
20 recommended 18 cent single-piece post card rate would be 54.5% of
21 a 33 cent letter rate, consistent with the long standing historical
22 relationship. Additionally, such a rate relationship would be more
23 consistent with the regulatory standards, considering the zero
24 privacy, very limited communication capacity, 8.5% weight, and 4
25 times the price elasticity of letters:

Comparison of Letters and Post Cards

At APPA Recommended Rates

<u>Criteria</u>	<u>Letter</u>	<u>Post card</u>	<u>PC/Letter Ratio</u>
Rate	33 cents	18 cents	54.5%
Privacy	Sealed	Open	Zero
Communication	8 pages	1/3 page	5%
Weight	1 oz.	1/12 oz.	8.5%
Elasticity	-0.232	-0.944	400 %

A Basic Presort rate of 15 cents would have a mark-up of total unit costs (7.7568 cents) of almost 100%. An 18 cent single-piece post card rate, and a 15 cent Basic Presort post card rate would be clearly consistent with the statutory standards.

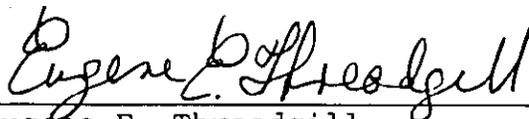
IX. CONCLUSION

First, the record in this case demonstrates that the present 20 cent single-piece rate for post cards is quite excessive, by every statutory standard, as compared with the proposed 33 cent Single piece First-class letter rate. Consequently, the proposed increase in the single-piece post card rate should be rejected. As shown above, an 18 cent post card rate and a 33 cent letter rate would be far more consistent with the historical relationship and with statutory standards.

Second, the record is clear that the present two cent "discount" for basic presorted post cards is punitive and fails to provide the rate differential required by the statutory standards. The Basic Presort discount should be increased to 3 cents.

Third, the USPS should be directed to consider some modification of the Automation conditions for post cards presorted

1 to 5-digits and carrier routes, and delivered to a destination 3 or
2 5 digit postoffice, to allow those presorted post cards to qualify
3 for the Automation categories without the full 11 digit barcode.
4 It might also be useful to consider the ramifications of an
5 enlargement of permissible post cards to 7 inches.



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CURRICULUM VITAE

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Education:

George Washington University, LL.M., 1950
Georgetown University, J.D., 1944
University of Florida, B.A. With Honors, 1940
American University - course work for M.A. in
Economics completed, 1948-50
Federal Legislation Editor, Georgetown Law
Journal, 1943-4

Employment:-

1972-97 Private Law practice before the Postal Rate Commission, the Federal Energy Regulatory Commission and Courts, representing bulk first-class mailer Associations; pipelines, gas distribution companies and competitors

Testified before Congressional Committees regarding postal matters; submitted recommendations to the Postal Service and to Congress that (1) the function of regulation of postal rates and classes by the Postal Rate Commission should be merged with regulation of telecommunications and transportation services (2) the Board of Governors of the Postal Service should have its own staff of lawyers and economists to write its decisions (3) carriers should collect data for population census and demographics; Advised committees of the General Accounting Office regarding proposed revisions of the Private Express Statutes and Postal Reform legislation

Testified before Congressional Committees regarding energy policy issues

1971 Assistant General Counsel, Postal Rate Commission - Supervised preparation of Commission orders; assisted in presentations to Congressional Committees reviewing operations of the U.S. Postal Service and the Postal Rate Commission, created by the Postal Reorganization Act of 1970

- 1969-70 Judge, Board of Contract Appeals, General Services Administration; adjudicated contract disputes
- 1968-9 Consultant, National Iranian Gas Company, Teheran, Iran - prepared contract for sale of natural gas to Soviet Union (Sojuznefteexport)
- 1957-68 Private law practice (Wolf and Case; Connole & O'Connell) representing pipelines, natural gas producers and gas utility companies before the Federal Power Commission
- 1955-57 Consultant, Sui Gas Transmission Company, Karachi, Pakistan - drafted contracts for sale of gas to Karachi Gas Company and Indus Gas Company; consulted regarding revision of gas purchase contract with Pakistan Petroleum
- 1951-55 Trial Attorney, Federal Power Commission
Litigated cases and wrote opinions
- 1948-50 Attorney Advisor, National Labor Relations Board - wrote NLRB decisions and orders
- 1946-7 Assistant Professor, Farragut College and Technical Institute, Farragut, Idaho; taught courses in Economics and Economic History, Mathematics and Law
- 1944-6 Law Clerk, Chief Judge William E. Richardson, District of Columbia Court of Appeals
- 1942-4 Economic Statistician, Gasoline Rationing Branch, Office of Price Administration - analyzed demand for and supply of gasoline, recommended changes in coupon ration program

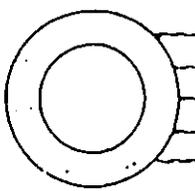
Published Papers

- Insurance Under the Sherman Act, 32 Georgetown Law Journal 66, November, 1943
- Resource Pricing of Natural Gas Field Sales, Public Util. Fortnightly, Oct. 1966
- Utility Regulation of Postal Rates and Classes, Public Utilities Fortnightly, May, 1977
- Anti-Competitive Abuse Under the Natural Gas Policy Act, Pub. Utilities Fortnightly, March, 1988
- A Perspective on Pipeline Pricing Under the Natural Gas Act, 16 Energy Law Journal 441, November, 1995

BILLING POST CARDS

Exhibit APPA-1

Current Typical Standard Billing Post Card

FROM MO. DAY						TO MO. DAY		LAST DAY TO PAY NET MO. DAY YEAR			 <p>PRE-SORTED First Class Mail U.S. Postage Paid</p>	RETURN POSTAGE GUARANTEED
7	20	9	20	10	30	97						
PREVIOUS READING	PRESENT READING	CONSUMED IN 100'S	CODE	AMOUNT	EUGENE THREADGILL							
429	564	135	WA	70.60	1493 CHAIN BRIDGE RD							
			SU	0.00	MCLEON, VA							
			GD	0.00	22101							
			UT	0.00	#1001049 #							
			AR	3.43								
ACCOUNT NO.		NET BILL		GROSS		NET BILL		GROSS				
1001049		74.03		77.56		74.03		77.56				
WA - WATER	GB - GARBAGE	UT - UTILITY TAX	PLEASE DETACH AND ENCLOSE WITH MAIL PAYMENT									
SW - SEWER	AR - ARREARS	SV - SERVICE										

THREADGILL EUGENE
1493 CHAIN BRIDGE RD
MC LEAN VA 22101-5726



The complete barcode required for Automation will not fit on the 2.5 inch return stub

Present Automation-Compatible Billing Post Cards

A. Post Card with Horizontal Return Stub

COMBINED UTILITY SYSTEM
P.O. BOX 619 EASLEY SC 29641-0619 PHONE 864-4611
AFTER HOURS 864-2726

SERVICE BILL FOR **S. P. BAND**
912 EAST END AVE

DATE	DETERMINING	MULT.	CONSUMPTION	AMOUNT
21	210443 209651	1	792	6.19
31	16613 15919	1	694	58.71
41		1		11.26

IT VIOLATES THE LAW TO ATTACH ANY
SIGNS TO TELEPHONE/POWER POLES

PRESORTED
FIRST-CLASS MAIL
U.S. POSTAGE PAID
EASLEY, SC
PERMIT NO. 110

AVERAGE DAILY COST
\$ 2.46 FOR 31 DAYS

SERVICE FROM: 9/05/97
SERVICE TO: 10/06/97
ACCOUNT NO: 21-1360-10
DATE OF BILL: 10/09/97

MUST BE PAID BY	AMOUNT DUE
10/19/97	76.16

CODES ON REVERSE SIDE RETURN BOTTOM STUB WITH PAYMENT

ACCOUNT NO. 21-1360-10 S. P. BAND
MUST BE PAID BY: 10/19/97 912 EAST END AVE
AMOUNT DUE: 76.16 EASLEY SC 29640-3132

|||||

B. Post Card with a 3.75" Return Stub

ANY UTILITIES
P.O. BOX
ANYTOWN, MD
Tel:

RETURN POSTAGE GUARANTEED
Account Number : 10002921
Date Meter Read : 10197

Present Reading : 255624
Previous Reading : 255624
Total Used : 6134
Charges/Credits : 12.45
Previous Unpaid : 0.00
→ Net Amount Due \$ 10/97 37
→ To be Paid By :

FIRST CLASS MAIL
U.S. POSTAGE
PAID
Permit No.

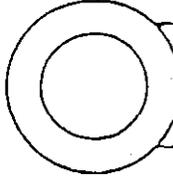
- \$ 10002921 -- \$ 109.87 -
JAMES VINEYARDS,
6000 UPPER LAKE RD
LODI NY 14860-0000

|||||

Possible Alternative Automation-Compatible Billing Post cards

C. Illustrative 7" Post card

FROM MO. DAY		TO MO. DAY		LAST DAY TO PAY NET MO. DAY YEAR		
7	28	9	29	10	30	97
PREVIOUS READING	PRESENT READING	CONSUMED IN 100'S	CODE	AMOUNT		
439	564	125	WA	70.60		
			SW	0.00		
			GB	0.00		
			UT	0.00		
			AR	3.43		
ACCOUNT NO.		NET BILL		GROSS		
1001049		74.03		77.56		
WA - WATER	GB - GARBAGE	UT - UTILITY TAX				
SW - SEWER	AR - ARREARS	SV - SERVICE				



PRE-SORTED
First Class Mail
U.S. Postage
Paid

#1001049

NET BILL	GROSS
74.03	77.56

PLEASE DETACH AND ENCLOSE WITH MAIL PAYMENT

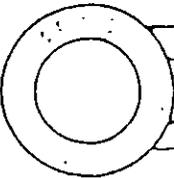
EUGENE E THREADGILL
SUITE 200
1493 CHAIN BRIDGE RD
MCLEAN VA 22101-5726



RETURN POSTAGE GUARANTEED

D. Standard Post card with first 5-Digits of barcode omitted

FROM MO. DAY		TO MO. DAY		LAST DAY TO PAY NET MO. DAY YEAR		
7	28	9	29	10	30	97
PREVIOUS READING	PRESENT READING	CONSUMED IN 100'S	CODE	AMOUNT		
439	564	125	WA	70.60		
			SW	0.00		
			GB	0.00		
			UT	0.00		
			AR	3.43		
ACCOUNT NO.		NET BILL		GROSS		
1001049		74.03		77.56		
WA - WATER	GB - GARBAGE	UT - UTILITY TAX				
SW - SEWER	AR - ARREARS	SV - SERVICE				



PRE-SORTED
First Class Mail
U.S. Postage
Paid

#1001049

NET BILL	GROSS
74.03	77.56

PLEASE DETACH AND ENCLOSE WITH MAIL PAYMENT

EUGENE E THREADGILL
STE 200
1493 CHAIN BRIDGE RD
MC LEAN, VA 22101-5726



1 CHAIRMAN GLEIMAN: Mr. Threadgill, have you had an
2 opportunity to examine the packet, Designated Written
3 Cross-Examination that was provided earlier today?

4 THE WITNESS: Yes.

5 CHAIRMAN GLEIMAN: And if these questions were
6 asked of you today, would your answers be the same as those
7 you previously provided in writing?

8 THE WITNESS: Yes.

9 CHAIRMAN GLEIMAN: That being the case, I am going
10 to provide two copies to the reporter, and request that the
11 Designated Written Cross-Examination of Witness Threadgill
12 be accepted into evidence and transcribed into the record at
13 this point.

14 [Designation of Written
15 Cross-Examination of Eugene E.
16 Threadgill, APPA-T-1, was received
17 into evidence and transcribed into
18 the record.]

19
20
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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 1997

Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF AMERICAN PUBLIC POWER ASSOCIATION
WITNESS EUGENE THREADGILL
(APPA-T1)

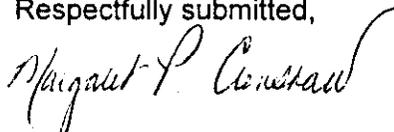
Party

United States Postal Service

Interrogatories

USPS/APPA-T1-1-4

Respectfully submitted,



Margaret P. Crenshaw
Secretary

INTERROGATORY RESPONSES OF
AMERICAN PUBLIC POWER ASSOCIATION
WITNESS EUGENE THREADGILL (T1)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory:

USPS/APPA-T1-1

USPS/APPA-T1-2

USPS/APPA-T1-3

USPS/APPA-T1-4

Designating Parties:

USPS

USPS

USPS

USPS

AMERICAN PUBLIC POWER ASSOCIATION WITNESS EUGENE E. THREADGILL
ANSWERS TO USPS INTERROGATORIES USPS/APPA-T1-1 THROUGH 4

USPS/APPA-T1-1. On page 9 (lines 8-12) of your testimony, you state, "in Mail Reclassification, Docket No. MC95-1, the Commission compounded the discriminatory single-piece rates by accepting the USPS proposal to terminate the 17 cent 3-digit presort rate category, the 16.3 cent 5-digit presort rate category, and the 16 cent carrier route presort rate category..."

- a. Please confirm that as a result of Docket No. MC95-1, the 3-digit presort, prebarcoded rate category was maintained and the rate was lowered from 17 cents to 15.9 cents. If not confirmed, please explain.
- b. Please confirm that as a result of Docket No. MC95-1, the 5-digit presort, prebarcoded rate category was maintained and the rate was lowered from 16.3 cents to 14.3 cents. If not confirmed, please explain.
- c. Please confirm that as a result of Docket No. MC95-1, the carrier route rate category was maintained and the rate was reduced from 16 cents to 14 cents. If not confirmed, please explain.

RESPONSE:

- a. Not confirmed. The 3-digit prebarcoded rate category was not maintained; it was terminated. The First-Class subclasses, Letters and Cards, were each subdivided into two new rate categories, Regular and Automated, with more detailed and expanded eligibility conditions for Automation than for the previous prebarcoded categories. The 17 cent 3-digit prebarcoded category was replaced by an Automated 3-digit rate of 15.9 cents.
- b. Not confirmed; see answer above. The 5-digit prebarcoded category, with a rate of 16.3 cents, was terminated. An Automated 5-digit category, with far different eligibility conditions, was established with a rate of 14.3 cents.
- c. Not confirmed. The carrier route presort rate category, which had a rate of 16 cents, was terminated. An Automated carrier route category with a 14 cent rate was created, with strict automation conditions, and also with access limited to designated destination post offices.

USPS/APPA-T1-2. On page 19 (lines 9-12) you set forth your specific rate proposals of 18 cents for a single-piece post card and 15 cents for a nonautomated presort card. On page 1, lines 1-4, of your testimony, you also state that your testimony opposes all of the post card rate increases proposed by the Postal Service and also requests reductions in all post card rates.

- a. Please confirm that the only specific rate reductions that you have proposed are the two cited in the preamble to this question (18 cents for single-piece compared to its current 20 cents, and 15 cents for non-automated presort compared to its current 18 cents). If not confirmed, please explain fully.
- b. Please quantify the Test Year 1998 card revenues that result from the proposal involving a 18 single-piece rate, a 15 cent nonautomated presort rate, and all other card rates remaining at their current levels.
- c. Please calculate the difference between Test Year revenues under Postal Service's proposal and the Test Year revenues from part (b) above. How would you propose that the Postal Service make up for these lost revenues?
- d. If your 15 cent nonautomated pressort rate was adopted, it would make this rate less than the current rate for basic automation (16.6 cents) and the current rate for 3-digit presort, prebarcoded cards (15.9 cents). Please comment on this relationship.
- e. According to Exhibit USPS-30B (Revised 9-19-97), the Postal Service proposal results in a Test Year cost coverage of 200 percent for the letters subclass and a cost coverage of 184 percent for the cards subclass. How would these cost coverages change under the proposal described in part (b)? Please explain.
- f. On page 15, lines 14-15, of your testimony, you state that, "the revenue impact of these recommended reductions in across-the-board post card rates should be negligible." In light of this statement (i) please describe specifically what recommended reductions you are referring to, and (ii) please quantify negligible.

RESPONSE:

a. Confirmed. It was and is my view that any reduction in the single-piece and non-automated presort rates should be accompanied by some reduction in the Automation rates, in order to attain a compatible rate structure for the entire Card subclass. However I depend upon the Commission to address such an issue.

b. As stated at page 15, line 18, of my testimony, USPS witness O'Hara has projected that the proposed one cent increase in card rates would generate an increase in revenue of \$29,136,000, to a projected total of \$1,088,979,000. If the present rates are reduced by two cents, and there is no change in the demand volume, the projected Test Year revenue would be reduced by \$87,408,000 (3 x \$29,136,000) for a total Test Year revenue of \$1,001,571,000. However, given the relatively high demand price elasticity for cards, any reduction in price will stimulate demand, so the Test Year revenue should not drop by \$87,408,000, if it drops at all.

c. See my answer to part (b) above. I would expect the Commission to calculate whether there would be any reduction in revenue which would have to be recovered from any other classes or kinds of services. As other parties have noted, recent reports on the continued profitability of the USPS suggest that USPS may have overstated its projected Test Year Revenue requirements in its filing. If that is true, then the USPS has an obligation to offer the Commission the opportunity to mitigate some of the proposed rate increases.

d. See my answer to part (a).

e. In my testimony at page 14, lines 9-14, I refer to the cost coverages reported in Exhibit USPS-30B, p.43. I have not received and was unaware that a revision to that exhibit had been filed. Calculation of cost coverage requires a complex projection of volumes, costs and revenues, a projection that I am not equipped to calculate. As I point out at lines 14-18 of page 14, given the much more limited value and much greater demand price elasticity of cards, the cost coverage for cards should be substantially less than that for letters.

f. See my answers to parts (a) and (b).

USPS/APPA-T1-3. On page 9 (lines 15-17) of your testimony, you state that, "Most presort post card mailers experienced cost increases in their postal costs [as a result of Docket No. MC95-1] which other mailers did not incur. Which other mailers and what costs are you referring to? Please explain.

RESPONSE:

As stated in the sentence preceding the one quoted above, the largest cost increase resulting from reclassification fell on those mailers which had been using the 16 cent post card carrier route presort rate category, which was terminated. Those mailers incurred a 2 cent per piece increase when they shifted to the 18 cent Basic Presort. However, other post card mailers, which had been using the 17 cent 3-digit presort category, or the 16.3 cent 5-digit presort category, experienced some increase in postal costs when those categories were terminated and replaced by the Basic Presort category with a rate of 18 cents. As explained elsewhere, the standard post card bill was not eligible for conversion to meet Automation standards. In order to achieve Automation eligibility, the billing post card, with the verticle stub, had to be replaced by a post card with a horizontal stub, which could be barcoded. Such a shift in bill preparation involved costs, which many post card billers were not willing to incur.

Most users of letters did not experience the kind of increase in postal costs incurred by post card users, because letters could easily be converted to meet Automation conditions, which allowed users of letter mail to achieve reduced postal costs.

USPS/APPA-T1-4. On page 10 (lines 14-18) of your testimony you state that, "The demand price elasticity of cards is so great that the proposed increase of one cent could bring about a significant decrease in demand and a net loss in post card revenue..." On page 11, line 24, you cite Postal Service testimony reporting own-price elasticity for cards as -0.944 . Is it correct that an elasticity of this magnitude will increase rather than decrease revenue when the rate increase increases one cent? Please explain.

RESPONSE:

I do not claim to have any expertise in current econometrics which employs elasticities and other factors to make economic projections. However, it is my impression that, if there were no external factors creating an increase in the demand for postal communication services (such as growth of population), with a demand price elasticity of nearly -1.00 , any increase in price for a service would result in a substantial reduction in demand for the service. Although I cannot quantify the net result of an increase in a rate and a decrease in demand upon the resulting revenue, it would seem to be undeniable that, with a letter elasticity of only $-.232$, a one cent increase in letter rates would generate a greater percentage increase in revenues than a one cent increase in a category with an elasticity of -0.944 .

1 CHAIRMAN GLEIMAN: Does any participant have
2 additional written cross-examination for the witness?

3 [No response.]

4 CHAIRMAN GLEIMAN: If not, that brings us to oral
5 cross-examination. Only one participant, the Postal
6 Service, has indicated it wishes to cross-examine Mr.
7 Threadgill.

8 Does any other participant have cross-examination
9 for the witness?

10 [No response.]

11 CHAIRMAN GLEIMAN: If not, Mr. Tidwell, when you
12 are ready.

13 CROSS-EXAMINATION

14 BY MR. TIDWELL:

15 Q Good morning, Mr. Treadgill, it's interesting to
16 see you there sitting in that chair as opposed to the chair
17 we're accustomed to seeing you in.

18 I've got some brief cross-examination for you.

19 I'd like you to turn your attention first to page
20 1 of your testimony. And, in particular, take a look at a
21 sentence that begins on line, I think, 21. There you state
22 that the public service entities that you represent will be
23 severely impacted by the proposed increases in postcard
24 rates. Can you tell me generally what percentage of their
25 total operating costs the cost of postage for billing of

1 customers represents for these utilities?

2 A No, the answer is I don't have any specific
3 information. All I know is that from general interrogations
4 that a number of them were concerned about the prospect,
5 that's all.

6 Q Okay. I'd like to turn your attention to page 3
7 of your testimony, and in particular, around line 7. You've
8 got a statement to the effect that users of envelopes for
9 billing could convert from the former carrier route pre-sort
10 category to the current automation carrier route pre-sort
11 category, but most postcard billers had no such option.

12 And in reference -- or in connection with that,
13 I'd like you to take a look at your response to Postal
14 Service Interrogatory No. 3.

15 A Yes.

16 Q Okay. In the first paragraph of the response, in
17 the last several lines, you state that many postcard billers
18 were not willing to incur the cost of converting their
19 postcard bills from vertically perforated postcards to
20 horizontally perforated postcards. And I was curious about,
21 you know, what's the difference between postcard billers who
22 had no option and postcard billers who weren't willing to
23 make the conversion?

24 A Well, I presume that any postcard biller who is
25 using the old standard postcard which had the vertical stub

1 could convert to the horizontal stub. It requires them to
2 -- apparently to dismantle their whole printing and
3 automation procedures and reinstall new hardware and, you
4 know, computer entries and that sort of thing. And I guess
5 a lot of the little utilities were not up to that.

6 I mean, technically it's possible for anyone who
7 used the old-fashioned card to convert to the new horizontal
8 card, and I think I attached it in one of my exhibits. But
9 apparently it's complex and they would have to hire computer
10 experts to redo whatever their billing program is and new
11 hardware to print this different kind of card and that sort
12 of thing, that's all.

13 Q In talking to APP members about this sort of
14 conversion activities did you develop any estimate of the
15 costs that a typical utility might incur?

16 A No, I'm sorry, I did not.

17 Q And when you say that most post-card billers had
18 no option, you're conceding that some did have the option
19 and some did exercise the option to convert to the
20 horizontal perforated --

21 A That's true, that's true.

22 Q And they were then able to continue to qualify
23 their pieces for the new automation carrier route category?

24 A Yes, if with the conversion to the other kind of
25 card, then it can be automated and qualify for the

1 automation rates.

2 Q Your testimony focuses on former carrier route
3 pre-sort postcard billers who after reclassification shifted
4 to the basic pre-sort category. And you've just
5 acknowledged that, however, some were able to shift to
6 automation carrier route? Is it also the case that some of
7 these former carrier route pre-sort billers were able to
8 shift to automation pre-sort basic?

9 A Yes, as I showed on APPA-1, No. A, that's a
10 postcard with the horizontal stub which can then contain the
11 full bar code required for automation and that's a -- called
12 combined utility system. That's one of the members of APPA.
13 But, you know, I've had not a lot of discussion, but I had a
14 little client in the gas field, Illinois Gas Company and
15 they were not -- they just found that the obstacle of
16 converting was too great for them, but I don't know why it
17 was too great for them. They were saying it was just a lot
18 of computer re -- you know, redoing and that sort of thing.

19 Q And so some of these billers or post card billers
20 have been able to convert also to automation three-digit
21 presort and automation five-digit presort from the former
22 carrier route presort?

23 A I'm sure that's the case; correct.

24 Q I'd like to take a look at your Exhibit APPA-1.
25 And first take a look at page 2 of that exhibit. There you

1 depict what you describe as present automation-compatible
2 billing post cards. I want to compare post card B on that
3 page, the one at the bottom of that page, with the post card
4 that's on page 1 of the exhibit. And I will just ask you to
5 agree to certain things subject to check. I mean, would you
6 agree that both post cards measure six inches across?

7 A That's -- yes, that's correct.

8 Q On page 2, post card B is four inches high while
9 post card -- the post card on page 1 is three-and-a-half
10 inches high?

11 A When you say page 1, I'm not sure --

12 Q Page 1 of Exhibit APPA-1, the post card that you
13 describe as the current typical standard billing post card.

14 A Oh, pardon me. Yes. I'm sorry.

15 Q So that was three-and-a-half inches high, and the
16 post card at the bottom of page 2 of the exhibit is four
17 inches high.

18 A That's correct; yes. Um-hum.

19 Q Keeping our focus on the post card at the bottom
20 of page 2, the perforation that runs vertically on that post
21 card is three-and-three-quarters inches from the right edge
22 of the post card, while the perforation on the post card on
23 page 1 of the exhibit is two-and-a-half inches from the
24 right edge of the post card.

25 A That's correct; yes.

1 Q What would prevent the post card biller on page 1
2 from converting his post card or its post card to the format
3 depicted on post card B on page 2? I mean, what sort of
4 obstacles would -- or what sort of things would the biller
5 have to do to convert from the format on page 1 to the
6 format on post card B on page 2? I mean, how expensive
7 would it be?

8 A The answer is I didn't make any study of that.
9 All I was showing to you were post cards that I've received
10 from utility bills, and it appeared to me that the one --
11 the standard bill which is on page 1 -- that's the long-time
12 standard bill, and it has a great deal of information on it.
13 As you can see, the billing period has from this day to that
14 day, the last day of payment, previous readings, present
15 readings, et cetera, et cetera, and the account number and
16 net bill and what it would be if you miss the date. This is
17 a great deal of information.

18 Converting that to the post card that's shown on
19 page 2B requires a totally different printing system, and to
20 run it into columns like that obviously would create some
21 problems for small operations that do this kind of billing.
22 That's all.

23 Q Okay.

24 A But I have not -- I truly have not had any direct
25 discussion with most of these people about what the problems

1 are.

2 Q Okay. I'd like to change to a different subject
3 and direct your attention to page 8 of your testimony. In
4 particular, at line, around -- well, I guess it's line 10,
5 you state that the driving force behind all increases in
6 postal rates is inflation, and you go on to talk about the
7 relationship between post card rate increases and inflation
8 over time. Do you know what the relationship between the
9 basic post card rate increases and inflation as measured by
10 the Consumer Price Index has been since 1970?

11 A Ummm --

12 Q Do you know whether for instance the rate of
13 increase for post cards since 1970 has been higher or lower
14 than the rate of inflation?

15 A No; I have not looked at the rate increases over
16 time compared with inflation. All I was looking at was
17 relative increases such as shown on page 7, that chart that
18 showed the Rate Commission granted a 15-percent increase in
19 the letter rate and a 27-percent increase in the post card
20 rate. That's what I'm saying is certainly two different
21 increases of that vastly different percentage do not reflect
22 inflation, that's all. They're out of sync with inflation
23 as it occurred between 1990 and 1991.

24 Q I'd also like to focus your attention on page 8,
25 down to the last paragraph on that page.

1 There you refer back to your chart on page 5 of
2 your testimony, which you describe as indicating that
3 throughout most of postal history the First Class mail
4 postcard rate was no more than 50 percent of the First Class
5 mail letter rate, and if you flip back to page 5, the chart
6 indicates that the postcard rate was one-half or less of the
7 letter rate every year between 1886 and 1951 with the
8 exception of a period of 1918 and 1919.

9 Now I was just curious as to why you consider the
10 historical relationship between letter and postcard rates
11 during this period to be relevant to the Commission's task
12 in this case?

13 A Well, it is my view that the postal system should
14 provide some low cost mechanism for communication and I am
15 looking back historically, and as I say, the postcard rate
16 was a half or a third of the traditional rate.

17 Now many people I think today even remember the
18 penny postcard and that's -- my perspective is that people
19 who -- I can remember my family using the little postcard,
20 filling it up with something written, and people no longer
21 use it for that purpose, that's all.

22 I think you have driven a lot of people out of the
23 market by the very significant increases in the postcard
24 rate.

25 Q The last subject I would like to direct your

1 attention to is a statement you made on page 11 of your
2 testimony.

3 There is a paragraph that actually starts at the
4 bottom of page 10 and carries over onto page 11, and there
5 is a sentence on page 11 in which you state, beginning line
6 2 that "A competitor of a mailer could gain access to a
7 postcard user's bills and use that information for
8 competitive purposes."

9 I was wondering if you could help me to understand
10 that scenario. What sort of circumstances are you
11 describing there?

12 A Well, of course that was not dealing with utility
13 bills as such. I am just thinking that the postcard, you
14 know, is quite public. Anybody can read it and see what it
15 says and the letter is sealed against inspection, and that
16 whole concept of privacy is a significant factor in the
17 letter card rate and the postcard rate simply has no such
18 privacy, that's all.

19 Q Well, how -- I mean under what circumstances is a
20 competitor going to gain access to the information on a
21 postcard? I mean where in the process of production of the
22 card and mailing and delivery does a competitive firm have
23 an opportunity to examine or read the face or the message on
24 the postcard?

25 A Well, obviously it would be slightly illegal to go

1 down a street and look in mailboxes to see postcards and
2 that sort of thing and -- or else communicate with the
3 carrier and ask the carrier to pass on some information but
4 I was just thinking in generality that the potential exists,
5 that's all.

6 Q Do you think that that is -- there is a real
7 strong potential for that? Are you aware of any instances
8 of that ever occurring?

9 A No, I don't have any, no.

10 Q You think the likelihood is high that that has
11 ever occurred?

12 A No, I have no investigation really of the subject.
13 It was just a generality that privacy exists for one and
14 does not exist for the other, that's all.

15 MR. TIDWELL: No further questions.

16 CHAIRMAN GLEIMAN: Is there any follow-up?
17 Questions from the bench?

18 [No response.]

19 CHAIRMAN GLEIMAN: Mr. Corcoran, would you like to
20 consult with Mr. Threadgill for a moment regarding any
21 redirect?

22 Mr. Threadgill indicates that he doesn't feel any
23 is necessary, just fine --

24 [Laughter.]

25 CHAIRMAN GLEIMAN: I am never quite sure in

1 situations like this whether it is the witness that should
2 be consulting with his counsel or counsel with his witness
3 when we have --

4 THE WITNESS: That's right.

5 CHAIRMAN GLEIMAN: -- someone stepping up to the
6 plate, as you have Mr. Corcoran, so if that is the case then
7 Mr. Threadgill, I want to thank you.

8 We appreciate your appearance here today and your
9 contributions to our record and if there is nothing further,
10 you are excused, and Mr. Corcoran, I want to thank you for
11 your assistance today also.

12 THE WITNESS: And I just want to thank the
13 Commission for this great opportunity to be a witness.
14 Thank you.

15 [Laughter.]

16 CHAIRMAN GLEIMAN: Our next witness is Dr. John
17 Haldi. He has submitted several pieces of testimony. He is
18 appearing today to present Nashua-District-Mystic-Seattle
19 T-2.

20 Mr. Olson, if you would identify your witness so
21 that I might swear him in.

22 MR. OLSON: Mr. Chairman, William Olson,
23 representing Nashua, District, Mystic, Seattle, and we would
24 like to call to the stand Dr. John Haldi.

25 CHAIRMAN GLEIMAN: Dr. Haldi, could you please

1 raise your right hand?

2 Whereupon,

3 DR. JOHN HALDI,

4 a witness, was called for examination by counsel for Nashua
5 District, Mystic, Seattle and, having been first duly sworn,
6 was examined and testified as follows:

7 CHAIRMAN GLEIMAN: Please be seated.

8 Counsel.

9 DIRECT EXAMINATION

10 BY MR. OLSON:

11 Q Dr. Haldi, I would like to present to you two
12 copies of "The Direct Testimony of Dr. John Haldi Concerning
13 Priority Mail on Behalf of Nashua, ~~Photo~~ District, Mystic, and
14 Seattle," designated as NDMS-T-2, and ask you if this
15 testimony was prepared by you or under your direction?

16 A Yes, it was.

17 Q And does that testimony contain the errata filed
18 approximately one week ago with the Commission?

19 A Yes, it does.

20 MR. OLSON: And with that, Mr. Chairman, I would
21 like to move the admission of this testimony into evidence.

22 CHAIRMAN GLEIMAN: Are there any objections?

23 [No response.]

24 CHAIRMAN GLEIMAN: Hearing none, Dr. Haldi's
25 testimony and exhibits are received into evidence, and I

1 direct that they be accepted into evidence and transcribed
2 into the record at this point.

3 [Direct Testimony and Exhibits of
4 Dr. John Haldi, NDMS-T-2, was
5 received into evidence and
6 transcribed into the record.]

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

Direct Testimony of

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Concerning

PRIORITY MAIL

on Behalf of

NASHUA PHOTO INC., DISTRICT PHOTO INC.,
MYSTIC COLOR LAB, AND SEATTLE FILMWORKS, INC.

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CONTENTS

	Page
AUTOBIOGRAPHICAL SKETCH	1
I. PURPOSE OF TESTIMONY	3
II. INTRODUCTION	4
III. PROPOSED INCREASE IN THE MAXIMUM WEIGHT OF FIRST-CLASS MAIL	8
IV. AN ALTERNATIVE PROCEDURE FOR VOLUME AND REVENUE PROJECTIONS	17
V. RATE DESIGN ISSUES	27
VI. PROPOSED PRIORITY MAIL RATES	41
VII. COVERAGE CONSIDERATIONS	57
VIII. COST CONSIDERATIONS	74
IX. CONCLUSIONS AND RECOMMENDATIONS	80
 APPENDICES	
A. VOLUME AND REVENUE EFFECTS FROM INCREASING THE MAXIMUM WEIGHT OF FIRST-CLASS MAIL	
B. PROJECTING TYAR PRIORITY MAIL VOLUME AND REVENUE BY APPLYING OWN-PRICE ELASTICITY TO THE RATE PROPOSED FOR EACH CELL	
C. NDMS PROPOSED RATES	

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AUTOBIOGRAPHICAL SKETCH

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My name is John Haldi. I am President of Haldi Associates, Inc., an economic and management consulting firm with offices at 680 Fifth Avenue, New York, New York 10019. My consulting experience has covered a wide variety of areas for government, business and private organizations, including testimony before Congress and state legislatures.

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In 1952, I received a Bachelor of Arts degree from Emory University, with a major in mathematics and a minor in economics. In 1957 and 1959, respectively, I received an M.A. and a Ph.D. in economics from Stanford University.

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From 1958 to 1965, I was assistant professor at the Stanford University Graduate School of Business. In 1966 and 1967, I was Chief of the Program Evaluation Staff, U.S. Bureau of Budget. While there, I was responsible for overseeing implementation of the Planning-Programming-Budgeting (PPB) system in all non-defense agencies of the federal government. During 1966 I also served as Acting Director, Office of Planning, United States Post Office Department. I was responsible for establishing the Office of Planning under Postmaster General Lawrence O'Brien. I established an initial research program, and screened and hired the initial staff.

1 I have written numerous articles, published consulting studies, and co-
2 authored one book. Included among those publications are an article, "The
3 Value of Output of the Post Office Department," which appeared in *The*
4 *Analysis of Public Output* (1970); a book, *Postal Monopoly: An Assessment of*
5 *the Private Express Statutes*, published by the American Enterprise Institute
6 for Public Policy Research (1974); an article, "Measuring Performance in Mail
7 Delivery," in *Regulation and the Nature of Postal Delivery Services* (1992);
8 and an article, "Cost and Returns from Delivery to Sparsely Settled Rural
9 Areas," in *Managing Change in the Postal and Delivery Industries* (1997;
10 with L. Merewitz).

11 I have testified as a witness before the Postal Rate Commission in
12 Docket Nos. MC96-3, MC95-1, R94-1, SS91-1, R90-1, SS86-1, R84-1, R80-1,
13 MC78-2 and R77-1. I also submitted comments in Docket No. RM91-1.

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I. PURPOSE OF TESTIMONY

2 The purpose of this testimony is to propose (i) a classification change
3 that would permit pieces weighing up to 13 ounces to be entered as First-
4 Class Mail (this change has an indirect but important effect on Priority
5 Mail); (ii) an alternative procedure to project Test Year After Rates volumes
6 and revenues by applying the estimated own-price elasticity to individual
7 rate cells; and (iii) alternative rates for Priority Mail. These proposals, the
8 rationale for their adoption, and their impact are explained herein.

1 competitors do on-site developing and printing, and offer turn-around times
2 as short as one hour.

3 Turn-around time and service are critical considerations in the direct
4 mail photofinishing business. All four companies operate their respective
5 processing plants up to 24 hours a day, seven days a week, as demand
6 warrants. Their goal is to have finished pictures back into the mail within 24
7 hours after customers' film arrives at the plant.

8 Nashua, District, Mystic, and Seattle compete vigorously with each
9 other, but they compete even more with the multitude of local, regional and
10 national film processors described above.

11 **Mailing Practices of Nashua, District, Mystic and Seattle**

12 Mystic and Seattle supply all their customers and prospects
13 exclusively with specially designed business reply envelopes ("BREs") to use
14 when placing an order. All BREs supplied by Mystic and Seattle are
15 returned directly to each firm at its respective plant.

16 Nashua and District receive some reply envelopes that are pre-paid by
17 the customer; the remainder arrive in BREs. The vast majority of reply
18 envelopes addressed to Nashua and District are sent to post office boxes
19 around the country. Certain of these companies use the **Priority Mail**
20 **Reship Service** to expedite receipt of customer orders at their plants.

1 Packages containing customers' exposed film are received at a plant,
2 opened, processed and put into envelopes to be sent back to customers.
3 Outgoing orders are sorted and sacked. Most packages returning the
4 finished photo product to customers weigh less than one pound. All four
5 companies use an expedited dropship service to send these packages to
6 destinating SCFs, at which point the individual customer envelopes are
7 entered as Standard A mail, for final delivery. The vast majority of dropship
8 to SCFs is via **Priority Mail dropship**.

9 Each day, NDMS collectively dispatch several truckloads of sacks
10 containing these packages of finished photo products to the nearest major
11 airports, and to certain other nearby postal facilities. Nashua and District
12 believe they are among the pioneers in using Priority Mail dropship. Their
13 Priority Mail sacks typically weigh anywhere from 15 pounds up the
14 maximum of 70 pounds. When a package of prints weighs more than one
15 pound, certain companies send such packages direct, via **Priority Mail**.

16 **Priority Mail**

17 Priority Mail has been a highly profitable and successful product for
18 the Postal Service. The FY 1996 revenues and operating profit (*i.e.*,
19 contribution to institutional costs) of Priority Mail were, respectively,
20 \$3,321.5 million and \$1,681.3 million. The operating profit from Priority
21 Mail was 4.5 times greater than the operating profit of all Periodicals and all

1 **Standard B mail, combined.** Viewed differently, the operating profit from
2 **Priority Mail** exceeded the combined operating profit of all domestic and
3 **international postal classes of mail and special services combined, excepting**
4 **First-Class and Standard A.**

5 **The proposals contained in this testimony are submitted on behalf of**
6 **customers and users of Priority Mail, and are intended to improve the**
7 **product and make it even more successful.**

1 proposed the following zoned rates for one-pound-and-under Priority Mail:
 2 \$1.25 (for Zones 1 through 5) and \$1.30 (for Zones 6 through 8).³

3 The Commission recommended First-Class rates of \$0.10 for the first
 4 ounce, and \$0.09 for each additional ounce. As a result of its
 5 recommendation for a lower decremental rate for each additional ounce, the
 6 Commission also recommended raising the breakpoint between First-Class
 7 and Priority Mail from 12 ounces to 13 ounces.⁴ The Commission also
 8 recommended the Postal Service's proposed rates for Priority Mail.⁵

9 10 11	Docket No. R74-1 (PRC recommended rates)	Highest Single piece First-Class Rate	Lowest Priority Mail Rate	Differential
12 13	Based on existing 12 oz. Breakpoint	\$1.09	\$1.25	\$0.16
14 15	After recommended 13 oz. Breakpoint	\$1.18	\$1.25	\$0.07

³ *Op. & Rec. Dec.*, Docket No. R74-1, pp. 7-8, Appendix 1, Schedule A-2. The *Op. & Rec. Dec.* in Docket No. R74-1 does not refer to any Postal Service proposal regarding the breakpoint.

⁴ *Id.*, Appendix 1, Schedule A-1.

⁵ *Id.*, p. 8.

1 **Docket No. R77-1: Commission Reduces the Breakpoint**
 2 **From 13 to 12 Ounces**

3 In Docket No. R77-1, the Postal Service proposed rates of \$0.16 for the
 4 first ounce of First-Class Mail and \$0.13 for each additional ounce, a
 5 minimum rate of \$1.59 for Priority Mail, and a **reduction in the**
 6 **breakpoint from 13 ounces to 11 ounces.** The Commission recommended
 7 a rate of \$0.15 for the first ounce of First-Class Mail and \$0.13 for each
 8 additional ounce, with a reduction in the breakpoint to **12 ounces.**⁶ The
 9 Commission recommended a minimum rate of \$1.71 for Priority Mail (one-
 10 pound-and-under Priority Mail sent to the nearest zones)⁷ which it viewed as
 11 a direct extension of the First-Class rate schedule. It calculated the
 12 minimum rate for Priority Mail by using the rate that would apply to First-
 13 Class Mail weighing one ounce more than the breakpoint.

14 Docket No. R77-1 15 (USPS request)	Highest Single piece First-Class Rate	Lowest Priority Mail Rate	Differential
16 Based on existing 17 13 oz. Breakpoint	\$1.72	\$1.59	(\$0.13)
18 After requested 19 11 oz. Breakpoint	\$1.46	\$1.59	\$0.13

⁶ *Op. & Rec. Dec.*, Docket No. R77-1, p. 179.

⁷ At that time, even the lowest-weight Priority Mail was zoned. The minimum rate was one pound and under.

1 2 3 4	Docket No. R77-1 (PRC recommended rates)	Highest Single piece First-Class Rate	Lowest Priority Mail Rate	Differential
5 6	Based on existing 13 oz. Breakpoint	\$1.71	\$1.71	\$0.00
7 8 9	After recommended 12 oz. Breakpoint	\$1.58	\$1.71	\$0.13

10 **Docket No. R87-1: Commission Reduces the Breakpoint**
11 **From 12 to 11 Ounces**

12 In Docket No. R87-1, the Postal Service proposed a First-Class rate of
13 \$0.25 for the first ounce and \$0.20 for each additional ounce. It proposed a
14 uniform unzoned rate of \$2.40 for two-pound-and-under Priority Mail. With
15 the existing breakpoint of 12 ounces, which the Postal Service did not
16 propose changing, the heaviest (12-ounce) First-Class Mail would have cost
17 \$2.45, some \$0.05 more than the lowest proposed Priority Mail rate. To
18 prevent this anomaly, the Commission rejected the Postal Service's proposal
19 to maintain the breakpoint at 12 ounces.⁸

20 The Commission, "concerned that there be a reasonable transition
21 between the rates of regular First-Class Mail and Priority Mail,"
22 recommended a lower breakpoint so that Priority Mail rates would apply to

⁸ *Op. & Rec. Dec.*, Docket No. R87-1, p. 444.

1 pieces weighing more than 11 ounces.⁹ With the Postal Service's proposed
 2 rates for First-Class and Priority Mail, this meant that the rate for the
 3 heaviest (11-ounce) First-Class pieces was \$2.25, or \$0.15 less than the
 4 lowest Priority Mail rate.

Docket No. R87-1	Highest Single piece First-Class Rate	Lowest Priority Mail Rate	Differential
12 oz. Breakpoint (USPS request)	\$2.45	\$2.40	(\$0.05)
11 oz. Breakpoint (PRC recommendation)	\$2.25	\$2.40	\$0.15

10 **Docket No. R97-1: Postal Service Proposes No Change to Breakpoint**

11 At present, the highest rate for First-Class Mail is \$2.62 for an 11-
 12 ounce piece. The lowest rate for Priority Mail is \$3.00 for any piece weighing
 13 up to 2 pounds. The gap, therefore, is \$0.38.

14 In the current case, regarding First-Class Mail, the Postal Service
 15 proposes to increase the rate for the first ounce of single piece mail by 1 cent,
 16 from \$0.32 to \$0.33. It proposes to leave the rate for each additional ounce
 17 unchanged, at \$0.23. The rate for an 11-ounce piece of First-Class Mail
 18 would thus increase by only 1 cent, from \$2.62 to \$2.63.

⁹ *Id.*

1 At the same time, the Postal Service proposes a minimum rate of \$3.20
2 for two-pound-and-under Priority Mail, with no change to the existing 11-
3 ounce breakpoint.¹⁰ Although this does not create any rate anomalies, the
4 transition cannot be described as small or smooth. Instead, it presents a
5 large differential, or “gap.”

6 Under the Postal Service’s proposed rates, the heaviest (11-ounce)
7 First-Class pieces would cost \$2.63, fully \$0.57 less than the lowest Priority
8 Mail rate (two-pound-and-under). When asked about this large gap, witness
9 Sharkey stated that “keeping the gap as small as possible” was a factor in
10 *setting the minimum Priority Mail rate and led him to propose a percentage*
11 increase to the lowest Priority Mail rate which was lower than the overall
12 percentage increase for Priority Mail.¹¹ When asked if there was a maximum
13 acceptable gap, witness Sharkey responded that “[t]he maximum gap is not
14 an arbitrary figure,” but “results from the reconciliation of a variety of factors
15 bearing on each of the respective classifications.”¹²

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¹⁰ USPS Request for a Recommended Decision, Docket No. R97-1, Attachment B, pp. 6, 9. No consideration was given to changing the breakpoint. See Postal Service response to DBP/USPS-13(i)-(l) (Tr.19A/8611).

¹¹ Response of witness Sharkey to NDMS/USPS-T33-1(d) (Tr. 4/1996).

¹² *Id.*

1 **The Maximum Weight of First-Class Mail Should be Increased**

2 **The unnecessarily large gap.** Clearly, the proposed gap of \$0.57
3 between the maximum First-Class rate and the minimum Priority Mail rate
4 is not as small as possible. Moreover, no good reason has been proffered as to
5 why a gap this large should be considered acceptable. Such a large gap is not
6 readily understandable by Postal Service customers. Moreover, there is no
7 operational reason why 12- or 13-ounce pieces cannot be handled within the
8 First-Class mailstream. The breakpoint has been 13 ounces in the past, as
9 discussed *supra*. Priority Mail is a subclass of First-Class Mail. It is
10 important that there be a rational relationship between the maximum First-
11 Class Mail rate and the minimum Priority Mail rate.

12 At the same time, it is equally important that the current 11-ounce
13 maximum weight for First-Class Mail not be maintained if it results in an
14 artificially low two-pound-and-under Priority Mail rate. This rate applies to
15 80 percent of all Priority Mail volume. An artificially low two-pound-and-
16 under rate can have a disastrous effect on rates paid by mailers of zoned
17 Priority Mail due to the relatively small volume of zoned Priority Mail.

18 In Docket No. R94-1, the Commission held the two-pound-and-under
19 Priority Mail rate down to \$3.00 despite an indicated rate of approximately
20 \$3.10. The effect of setting less-than-indicated rates for unzoned 5-pound-
21 and-under Priority Mail was to force every zoned parcel over 5 pounds to pay

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1 an extra \$1.30. The result of high zoned rates was a sharply reduced rate of
2 growth in zoned Priority Mail. (See discussion, *infra*.)

3 **Precedent and proposal. Ample precedent exists for this**
4 **proposal.** The Commission has changed the maximum weight of First-Class
5 Mail on three prior occasions, to prevent anomalies or unusually large gaps.
6 It should do so again. Assuming that the Commission accepts the Postal
7 Service's proposed rate of 23 cents per ounce for each additional ounce of
8 First-Class Mail, I propose that the maximum weight of First-Class Mail be
9 increased to 13 ounces.¹ This will reduce the gap, provide a smooth
10 transition from the maximum rate for First-Class Mail to the minimum rate
11 for Priority Mail, and give mailers maximum options regarding how they
12 send pieces that weigh 12 and 13 ounces.²

¹³ Should the Commission recommend a rate for additional ounces of First-Class Mail that differs from the proposed 23-cent rate, the maximum weight of First-Class Mail should be adjusted accordingly.

¹⁴ The current rate for an 11-ounce piece of First-Class Mail is \$2.62. If a mailer sends a 12-ounce piece with \$2.85 postage (\$2.62 + \$0.23 for the extra ounce), despite the theoretical 11-ounce maximum weight for First-Class Mail, the Postal Service may deliver it as First-Class Mail. Response of witness Moden to NDMS/USPS-T33-31 (Tr. 11/5829).

Docket No. R97-1	Highest Single piece First-Class Rate	Lowest Priority Mail Rate	Differential
11 oz. Breakpoint (USPS Request)	\$2.63	\$3.20	\$0.57
12 oz. Breakpoint	\$2.86	\$3.20	\$0.34
13 oz. Breakpoint	\$3.09	\$3.20	\$0.11

6 **Volume and revenue effects.** If the maximum weight of First-Class
7 Mail is increased to 13 ounces, some pieces that are now entered as Priority
8 Mail will likely migrate to First-Class. The estimated cross-over amounts to
9 77.7 million pieces at the Postal Service's proposed rates.¹⁵ The decline in
10 Priority Mail revenues from this crossover would amount to \$248.5 million.
11 At the same time, the crossover will increase First-Class revenues by \$226.1
12 million; *see* Appendix A for details.¹⁶ The net reduction in Postal Service
13 revenues thus amounts to only \$22.5 million,¹⁷ without accounting for
14 additional volume that could be generated by this reduction in rates.

¹⁵ Using the minimum Priority Mail rate proposed herein by NDMS, the estimated cross-over would be 100.6 million pieces, with a corresponding change in revenues for both Priority Mail and First-Class Mail; *see* Appendix A, Table A-3.

¹⁶ This proposal is made irrespective of whether the Commission recommends the rates proposed herein. Accordingly, if the Commission recommends an increase in the maximum weight of First-Class Mail, the appropriate adjustments to volume, revenues and costs need to be made regardless of whatever rates the Commission finally recommends.

¹⁷ This figure has been rounded from \$22.468 million, *see* Appendix A, Table A-2. The estimated reduction in Priority Mail revenues is \$248.529 million; the estimated increase in First-Class revenues is \$226.061 million. *Id.*

1 **IV. AN ALTERNATIVE PROCEDURE FOR VOLUME**
2 **AND REVENUE PROJECTIONS**

3 **The Standard Procedure**

4 **Forecast based on average rate change.** In this docket, as in prior
5 docket, the Postal Service developed an elaborate econometric model that is
6 used (i) to forecast growth in demand for Priority Mail, and (ii) to estimate
7 the price elasticity of Priority Mail.¹⁸ The standard procedure has been, first
8 to project Test Year Before Rates ("TYBR") Priority Mail volume, and then to
9 use the average percentage price increase, in conjunction with the estimated
10 own-price elasticity, to forecast Test Year After Rates ("TYAR") volume.

11 **Ratio method preserves base year distribution.** Once the
12 aggregate forecast is developed, the base year volume in each rate cell is
13 adjusted by the ratio of TYAR Volume/Base Year Volume (*i.e.*, the aggregate
14 volume is distributed to the individual cells, in direct proportion to the base
15 year distribution).¹⁹ This approach is referred to here as the standard
16 procedure. It assures that the sum of the volume in all cells equals the
17 aggregate forecasted volume, **regardless of how rates change in**
18 **individual cells.**

¹⁸ See USPS-T-8.

¹⁹ Response of witness Sharkey to NDMS/USPS-T33-3(c) (Tr. 4/1948).

1 In other words, under the standard procedure, the volume projected for
2 each Priority Mail rate cell rests solely on the average rate increase. The
3 rate design used to achieve that average is not relevant to the volume
4 forecast. In comparison to the economic sophistication that goes into
5 projecting Before Rates volume and estimating own-price elasticity, the
6 procedure for deriving After Rates volume and revenue is remarkably naive.

7 **After rates revenue forecast.** As a final step, projected revenues
8 are derived by multiplying the rate proposed for each cell times the
9 **TYAR volume in each rate cell.** The procedure for distributing projected
10 volume over individual rate cells thus **has immediate consequences for**
11 **the revenue forecast.** The standard procedure is a reasonable shortcut
12 when all Priority Mail rates are proposed to increase by the same percentage
13 amount, as occurred in Docket No. R94-1.²⁰ Usually, however, as in this
14 docket, all rates are not proposed to increase by the same percentage amount.

15 **Widely Varying Percentage Changes Are Proposed for Priority Mail**

16 In this docket, the Postal Service's proposed rate changes for Priority
17 Mail range from a low of minus 0.30 percent (for a 30-pound parcel
18 shipped to a local destination) to a high of plus 16.00 percent (for a 70-

²⁰ In Docket No. R94-1, the Postal Service proposed an equal across-the-board percentage increase, but the Commission subsequently recommended rates that imposed widely varying percentage increases between rate cells.

1 pound parcel shipped to Zone 7). Within this wide range of individual rate
2 changes, the percentage increases (and decreases) vary from weight to
3 weight, and zone to zone, but invariably the **highest percentage increases**
4 **are reserved for weights above 20 pounds shipped to Zones 6, 7 and 8**
5 (*see Table 1*).

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Table 1

PRIORITY MAIL
PROPOSED POSTAL SERVICE PRIORITY MAIL RATES
PERCENT CHANGE FROM CURRENT RATES
SELECTED RATE CELLS

7	Weight						
8	(Pounds)	<u>L.1,2&3</u>	<u>Zone 4</u>	<u>Zone 5</u>	<u>Zone 6</u>	<u>Zone 7</u>	<u>Zone 8</u>
9	2	6.67%	6.67%	6.67%	6.67%	6.67%	6.67%
10	3	10.00	10.00	10.00	10.00	10.00	10.00
11	4	10.00	10.00	10.00	10.00	10.00	10.00
12	5	10.00	10.00	10.00	10.00	10.00	10.00
13	10	3.85	4.84	5.21	4.39	5.35	5.69
14	20	3.29	7.67	4.18	10.10	10.82	11.00
15	30	-0.30 ²¹	8.60	1.79	12.50	13.07	12.96
16	40	0.96	9.49	2.93	13.66	14.30	14.25
17	50	1.99	9.90	3.40	14.40	15.08	14.87
18	60	2.72	10.05	3.84	15.01	15.61	15.38
19	70	3.11	10.39	4.25	15.46	16.00 ²²	15.67

20

**Rate Design Does Not Affect TYAR Volume in
Individual Rate Cells Under the Standard Procedure**

23 When changes in individual rate cells vary widely, as in the Postal
24 Service's proposal in this docket, a major problem exists with the
25 methodology employed to calculate estimated TYAR volumes for the rate

²¹ Largest decrease for Priority Mail proposed by Postal Service.

²² Largest increase for Priority Mail proposed by Postal Service.

1 cells. Specifically, the volume projected for each cell, or for a group of cells
2 (*e.g.*, all unzoned rates above 5 pounds), **does not** vary to reflect the rates
3 proposed for the cell or cells in question. In fact, under the existing standard
4 procedure, the TYAR volume in each cell does not change, regardless of the
5 rate design, so long as the **average** rate increase does not change.²³

6 **The Standard Procedure Can Produce Counter-Intuitive Results**

7 The situation that arose in Docket No. R94-1 illustrates how the
8 existing standard procedure can produce results that, from an economic
9 perspective, are counter-intuitive and almost surely misleading. The Postal
10 Service proposed an across-the-board percentage increase that averaged 10.4
11 percent. The Commission, however, recommended a lower increase that
12 averaged only 4.75 percent.²⁴ The lower average increase caused the
13 Commission to project a higher aggregate After Rates volume than that
14 projected by the Postal Service. Then, using the standard procedure, the
15 Commission projected that all rate cells would have higher volumes than
16 those projected by the Postal Service. At the same time, the Commission
17 increased the minimum two-pound-and-under rate by only 3.4 percent, while
18 increasing zoned rates above 5 pounds somewhat more than the 10.4 percent

²³ This extreme reliance on averages brings to mind the warning that one can drown in a stream which averages only two inches deep.

²⁴ *Op. & Further Rec. Dec.*, Docket No. R94-1, Appendix G, Schedule 1.

1 proposed by the Postal Service — in some instances, considerably more. For
2 the 5- to 70-pound rate cells, the astonishing net result was as follows:
3 significantly higher rates than those proposed by the Postal Service also
4 resulted in higher projected volumes, with a corresponding higher revenue
5 projection. Thus, using the standard procedure, **higher rates and higher**
6 **volumes seemingly went hand-in-hand.** Such a result obviously defies
7 economic logic.

8 **Empirical Evidence Indicates the Standard Procedure**
9 **Needs to be Changed**

10 Does elasticity apply to individual rate cells? That is, will higher-
11 than-average rate increases in certain cells cause a higher-than-average
12 reduction in volume in these cells? To investigate this question, the change
13 in Priority Mail volume from 1993 (the Base Year in Docket No. R94-1) to
14 1996 (the Base Year in this Docket) was analyzed.

15 The current rates, implemented for Priority Mail in August 1995
16 following remand to the Commission, are heavily weighted **against** heavier-
17 weight zoned parcels, most especially in Zone L,1,2&3, Zone 4, and Zone 5.
18 These results are summarized in Table 2. The volume of **unzoned** Priority
19 Mail weighing up to 5 pounds is shown in Column 1; the volume of all
20 **zoned-rated** Priority Mail is shown in Column 2. Over these past three
21 years, the growth rates were strikingly different. **Unzoned** Priority Mail

1 grew at an annual rate of 12.6 percent, almost three times the rate of
2 **zoned-rated** Priority Mail, which increased at an annual rate of only 4.3
3 percent.

4 The data in Table 2 can scarcely be characterized as a sophisticated
5 econometric analysis. On the surface, at least, they nevertheless indicate
6 that rates affect shippers' selection of services from the Postal Service.
7 Although the data in Table 2 may not be conclusive, few economists would be
8 surprised by the result. Moreover, had the alternative procedure
9 recommended here been applied to the Commission's rates, such an outcome
10 would have been projected.

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Table 2

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Priority Mail
Growth and Growth Rates
1993-1996

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Up to 5 Lb.
Unzoned Rates
(1)

6-70 Lb.
Zoned Rates
(2)

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Volume: FY 1996

898,788,931

38,483,677

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Volume: FY 1993

630,439,85433,933,752

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Volume Increase

268,349,077

4,549,925

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Aggregate Percentage Growth

42.57%

13.41%

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Annual Percentage Growth

12.55%

4.28%

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Proposed Alternative Procedure

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To prevent a recurrence of unrealistic projected volumes, such as that

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described above, the following alternative procedure is proposed:

19

(1) I accept and adopt the Postal Service's TYBR volume forecast for

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Priority Mail.

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(2) I agree that TYBR volume should be distributed to each rate cell in

22

proportion to Base Year volume in each cell.

1 (3) I accept and adopt witness Musgrave's own-price elasticity estimate for
2 Priority Mail.²⁵

3 In projecting TYAR volume, however, I propose to apply the own-price
4 elasticity to the TYBR volume in each rate cell and the percentage change in
5 rate proposed for each cell. Under this procedure, the higher the percentage
6 increase in rate for any cell, the lower the volume — and vice versa. This
7 alteration in the standard procedure makes cell volume and revenue
8 projections depend on rate design, as they should.

9 To illustrate my alternative procedure for TYAR volume and revenue
10 projections, I have applied it to the Postal Service's proposed rates. In this
11 docket, witness Musgrave estimates that Priority Mail has a long-run, own-
12 price elasticity of -0.77.²⁶ In the Test Year, however, the full effect of this
13 long-run own-price elasticity is not felt, owing to lagged response to rate
14 changes. In the Test Year, the "effective own-price elasticity" is -0.43. With
15 this alternative procedure, Priority Mail's effective own-price elasticity is
16 applied to the volume in each individual rate cell using the formula

$$17 \quad \text{TYAR } V_{ij} = \text{TYBR } V_{ij}(1 + \xi * R_{ij})$$

18 where

19 V = volume
20 ξ = effective TY own-price elasticity
21 R = percentage change in rate

²⁵ No basis exists for estimating different elasticities for individual cells, nor is it necessary to do so in order to utilize the alternative procedure proposed here.

²⁶ USPS-T-8.

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V. RATE DESIGN ISSUES

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Priority Mail competes in a highly competitive expedited delivery market. As discussed by witness Sharkey, and elsewhere in this testimony, Priority Mail suffers a number of competitive disadvantages. In order to compete successfully for the entire spectrum of packages weighing up to 70 pounds, Priority Mail needs to have a pricing structure which sufficiently compensates at every weight level and in each zone for its other disadvantages. The rates proposed here by NDMS incorporate three desirable changes in the principles/procedures used by the Postal Service to design rates for Priority Mail.

- No mark-up is imposed on the distance-related component of transportation costs;
- Within the unzoned, flat-rate weight range (up to 5 pounds), each pound increment reflects the same additional fee; and
- Presort discounts are eliminated.

These proposed changes will provide a rate structure to Priority Mail that not only reflects costs more appropriately, but is also more competitive. The following sections discuss the rationale for each proposed change.

²⁷(...continued)
revised costs by multiplying TYAR volumes in each cell by the cost in each cell.

1 **My Proposals in Docket No. R94-1**

2 In Docket No. R94-1, I proposed on behalf of Nashua and District that
3 the Commission adopt three separate principles of rate design for Priority
4 Mail:

- 5 (i) Within the unzoned, flat-rate weight range (up to 5 pounds),
6 each pound increment reflect the same additional fee;²⁸
- 7 (ii) Air transportation costs be divided into distance and non-
8 distance related components, enabling more accurate tracing of
9 cost incurrence; and
- 10 (iii) No mark-up be imposed on the distance-related component of
11 transportation costs.

12 Of these proposals, the Commission adopted the first, partially
13 adopted the second, and rejected the third. The proposal for equal pound
14 increment rates for unzoned pieces was adopted,²⁹ and it apparently has been
15 well received. Although the Postal Service has proposed in this docket rates
16 which ignore this principle, for the reasons discussed *infra*, I am proposing
17 that the Commission adhere to its prior position and retain equal increments.

18 With respect to the previous proposal that was partially adopted, I
19 propose that the Commission proceed with full implementation. In Docket

²⁸ Docket No. R94-1, N/DP-T-1, pp. 35-36.

²⁹ *Op. & Rec. Dec.*, Docket No. R94-1, pp. V-39-41.

1 No. R94-1, the Commission agreed that air transportation costs should be
2 divided into distance-related and non-distance-related categories, reflecting
3 the manner in which the Postal Service compensates carriers. Specifically,
4 since terminal charges are incurred on a pound basis irrespective of distance
5 flown, these costs vary by weight alone, and should be distributed according
6 to pounds. Distance-related costs, on the other hand, should be distributed
7 according to pound-miles. In order to avoid undue disturbances to existing
8 rates, the Commission incorporated only 50 percent of the distance/
9 nondistance adjustment in that case. For Priority Mail, the adjustment made
10 was 25.8 percent, rather than 51.7 percent.³⁰

11 Although concern about undue disturbances to existing rates was
12 reasonable for the Commission in Docket No. R94-1, it is now time to take
13 the next step and recommend rates for Priority Mail which reflect fully the
14 manner in which the underlying costs are incurred.

15 In Docket No. R94-1, the Commission rejected my proposal not to
16 impose a mark-up on distance-related costs.³¹ The Commission agreed that
17 my proposal would remove this attribute which renders Priority Mail rate
18 design wholly inconsistent with rate design principles used by the
19 Commission for Periodicals and Standard A Mail. Nevertheless, the

³⁰ *Op. & Rec. Dec.*, Docket No. R94-1, pp. III-54-56, V-37.

³¹ This was the second time that my proposal was rejected, having been made in Docket No. R90-1, and its rejection was apparently based on the same reasoning both times. *Op. & Rec. Dec.*, Docket No. R94-1, p. V-38.

1 Commission feared that the proposal would have the effect of increasing
2 Priority Mail rates for shipments to the close-in zones while reducing them
3 for shipments to distant zones. The Commission used the following
4 reasoning:

5 Witness Haldi has not provided a rate structure which shows, in
6 isolation, the impact of his proposal on Priority Mail rates for
7 material sent to the close-in zones. Instead, his proposed rates
8 incorporate his distance/nondistance proposal, his proposal for
9 identical increments between two and five pounds, and the no
10 markup proposal.... The existing record does not allow the
11 Commission to evaluate the impact of volume losses in the close-
12 in zones against volume increases in distant zones. Until
13 evidence is provided on the impact of his proposal on Priority
14 Mail rates and volumes, particularly on volumes sent to the
15 close-in zones, it is not possible to thoroughly evaluate his
16 proposal. Such evidence should explain how users of Priority
17 Mail and the Postal Service will benefit by this proposal.
18 Without credible data on this subject, there is potential for
19 significant market dislocation to the detriment of the Postal
20 Service and Priority Mail users. [*Op. & Rec. Dec.*, Docket No.
21 R94-1, p. V-39.]

22 It is clear that the Commission was right, in that the record in Docket
23 No. R94-1 did not isolate the effect of the no-markup proposal. My current
24 testimony attempts to cure this defect. The way in which the Postal Service
25 presents its request in this docket makes this task relatively easy. The
26 Postal Service in this docket adopts my Docket No. R94-1 proposal to
27 separate non-distance-related air transportation costs, and even extends the
28 analysis to surface transportation costs (highway, rail and water). I agree
29 with this extension of my original proposal. In the test year, the Postal
30 Service finds combined air and surface transportation costs to be as follows:

1 distance-related, \$361,828,000; and non-distance-related, \$361,286,000,
2 showing how significant this analytical refinement actually is.³² The Postal
3 Service applies my proposal to allocate distance-related transportation costs
4 based on pound-miles, and non-distance-related transportation costs based
5 on pounds. Moreover, the Postal Service goes beyond the Commission's
6 approach in Docket No. R94-1 to treat only 50 percent of the non-distance-
7 related costs as such, treating them all in this fashion as I had proposed.³³ I
8 completely concur with this proposal as well.

9 The Postal Service, however, continues to mark up distance-related
10 transportation costs. For the reasons stated in the next section, I disagree,
11 and continue to urge that distance-related transportation costs not be
12 marked up. Therefore, although I disagree with the Postal Service's
13 continued mark-up of distance-related transportation costs, its decision to
14 propose rates based on that mark-up, when contrasted with my proposed
15 rates, presents the type of "hold-constant" comparison that the Commission
16 wanted to have on the record so that it could evaluate the effect of this
17 change in isolation. Other than my decision to maintain uniform \$1.10 rate
18 increments for unzoned 2- to 5-pound packages, the Postal Service's rates
19 and my rates reflect the contrast the Commission wanted to see.

³² USPS-33Q.

³³ USPS-T-33, p. 25, l. 14.

1 In Docket No. R94-1, the Commission apparently anticipated that not
2 marking up distance-related costs would necessarily increase rates to close-in
3 zones. This does not happen (*see* Appendix C, Table C-8). Not applying the
4 mark-up to transportation costs, however, affects costs for unzoned pieces.
5 And since unzoned pieces represent more than 95 percent of Priority Mail
6 volume, the effect on zoned Priority Mail is much less than the Commission
7 had apparently assumed. Removing the mark-up from transportation costs
8 necessarily has the effect of increasing the contribution recovered through
9 the piece and weight components. Consequently, slight increases in some of
10 the unzoned weight cells are indicated by my proposal. The indicated rates
11 actually reduce all zoned rates except the Zone 8, 6-pound rate, when
12 compared with the Postal Service's proposal.

13 **Distance-related Transportation Costs Should Not Be Marked Up**

14 Some classes of mail have a uniform rate for delivery anywhere in the
15 country. For those classes, the treatment of transportation costs in the rate
16 structure is not an issue. For other classes of mail, however, the rate
17 structure reflects distance-related transportation costs in one of two ways,
18 and the difference between the two approaches is striking.

19 For Periodicals, Standard A, and Standard B mail, the Postal Service
20 offers a discount to mailers who bypass part of the network and dropship to
21 destinating facilities. In each of these classes, the discount for dropshipment

1 is subtracted from a rate that includes a contingency and mark-up computed
2 on all costs.

3 Dropship discounts reflect what is often referred to as **top-down**
4 pricing. Interestingly, when computing the costs avoided, which support the
5 dropship discounts, no recognition of contingency or mark-up has ever been
6 included. Such discounts are based solely on the estimate of costs actually
7 avoided by the Postal Service.³⁴ Estimates of avoided costs are translated
8 into discounts via passthroughs, which can be and often are less than the full
9 amount of costs avoided. Where this occurs, the difference in rates for near
10 and far entry into the Postal network are **even less than** the Postal Service's
11 actual costs.

12 One immediate effect of the top-down approach to rate design is that
13 the entire contribution to institutional cost is reflected in the per-piece and/or
14 the per-pound element of the rate structure, while the discount for
15 dropshipment generally reflects, on average, about 90 to 100 percent of costs
16 avoided by the Postal Service. As a result, any mailer who elects not to
17 dropship (*i.e.*, who elects to forgo the discount) is, in effect, purchasing
18 transportation services from the Postal Service at close to the Postal Service's
19 marginal cost. For Periodicals or Standard A or B mail, computation of the
20 discount does not include either mark-up or contingency. When destination

³⁴ See LR-H-111 for details concerning computation of costs avoided from dropshipment in this docket.

1 entry discounts were introduced for third-class (now Standard A) mail, the
2 Postal Service testimony was clear.³⁵

3 The Postal Service's proposal is not intended to force
4 mailers into the transportation business. Destination discounts
5 should be based fairly on costs and should not include special
6 incentives. Similarly, the **rates for long-distance mail**
7 **should be only as high as is required to cover the service**
8 **provided.** The Postal Service is not trying to get out of the
9 transportation business. [Emphasis added.]

10 For zoned rates, such as those for Priority Mail over 5 pounds, the
11 procedure for reflecting transportation costs is **exactly the reverse of the**
12 **Postal Service's policy.** Here, the procedure is akin to **bottom-up** pricing.
13 The Postal Service first computes the **incremental** cost of transporting mail
14 to the more distant zones (rather than costs avoided by dropship entry). The
15 Postal Service then **adds a mark-up** to all distance-related transportation
16 costs.³⁶ In the case of Priority Mail, the mark-up is quite substantial, and the
17 difference in rates for near and far entry thus reflects **far more than the**
18 Postal Service's actual cost of the service provided.

19 The bottom-up approach to rate design obviously flies in the face of the
20 Postal Service's position in Docket No. R90-1 that "the rates for long-distance
21 mail should be only as high as is required to cover the service provided." One
22 result of this bottom-up approach to rate design for Priority Mail is that the

³⁵ Docket No. R90-1, direct testimony of Robert W. Mitchell, USPS-T-20, p. 101.

³⁶ Response of witness Sharkey to NDMS/USPS-T33-13 (Tr. 4/1961).

1 distance-related increment in the rate structure also includes a substantial
2 “profit,” or contribution to institutional cost.³⁷

3 These two approaches to reflecting distance-related transportation
4 costs in rates could hardly be more different.³⁸ Costs avoided are treated one
5 way, costs incurred are treated quite differently, while costs avoided and
6 costs incurred are (and should be treated as) the opposite side of the same
7 coin.

8 Allowing mailers the option to save transportation costs gives rise, of
9 course, to the possibility for consolidation and/or destination entry. This has
10 occurred in Periodicals, Standard A and even Standard B. For these classes
11 of mail, the Postal Service provides less of the intermediate services, while
12 retaining the delivery portion, which supports its network of carriers.

13 In Priority Mail, however, where the rate differentials are so much
14 more pronounced for packages that weigh more than 5 pounds, the
15 experience has been quite different. Here, consolidation and destination
16 entry are virtually nonexistent. Destination entry mailers might enjoy the
17 option of selecting more expedited delivery of their mailpieces. Instead,

³⁷ If destination entry discounts for Periodicals, Standard A, and Standard B were modified to conform with the practice for Priority Mail, the dropship discount would be increased to reflect 100 percent of costs avoided plus the contingency and mark-up imposed on the subclass.

³⁸ It may be argued that, in theory, debates over top-down versus bottom-up pricing are as sterile as debating whether a glass is half-full or half-empty. In practice, however, a very substantial difference exists, at least with respect to transportation costs.

1 inordinately high rates for zoned Priority Mail have pretty much taken the
2 Postal Service out of both the transportation business and the delivery
3 business for heavier-weight expedited packages.³⁹ In other words, the
4 Postal Service has lost all of this business. This is reflected by the Postal
5 Service's declining share in the heavier-weight portion of the market.

6 Priority Mail rates also do not recognize mailer worksharing from
7 dropshipment — which avoids delivery and outgoing mail processing costs.
8 In dropshipment, mailers purchase transportation from the Postal Service for
9 final delivery by another means (often another postal product, such as
10 Standard A by NDMS).

11 Recognition of such mailer worksharing (*i.e.*, destination entry and
12 dropshipment) in Priority Mail rates would especially benefit mailers of
13 heavier-weight mailpieces who currently use Standard Mail classes (which
14 offer such discounts). The Postal Service's failure to recognize such
15 worksharing in its Priority Mail rates provides another reason why heavier-
16 weight Priority Mail rates should be kept more competitive with other
17 providers of expedited delivery service.

18 Although the principle articulated by the Postal Service in Docket No.
19 R90-1 regarding the proper treatment of transportation costs is clear and

³⁹ Consolidation requires time and results in delay which is counter-productive for shippers who require expedited service, and will not occur in the absence of reasonable rates.

1 compelling, the Postal Service has never applied that principle to its zone-
2 rated classes (*e.g.*, Priority Mail). When transportation costs are viewed in a
3 context broader than worksharing passthroughs, the issue is whether
4 transportation services ought to be priced at a discount (*i.e.*, below out-of-
5 pocket cost), at cost, or marked up sharply. A precedent exists for each of
6 these options, and neither the Commission nor the Postal Service has ever
7 articulated any clear rate-making principles that would result in consistent
8 treatment for distance-related transportation costs in rate design. At a
9 minimum, I suggest that the widely disparate treatment given to the
10 different classes of mail should cease. Assuming that the Postal Service and
11 the Commission use proper costing principles, whatever is good for
12 Periodicals and Standard A should also be good for Priority Mail — and vice
13 versa.

14 Rates proposed in the next section adhere to the principle espoused by
15 the Postal Service in Docket No. R90-1. The incremental zone rates are as
16 close as possible to 100 percent of actual distance-related cost, plus a
17 contingency of 1 percent. In other words, **rates proposed here reflect a**
18 **100 percent passthrough of distance-related costs** incurred by the
19 Postal Service to transport mail. The concept of 100 percent passthrough for
20 costs avoided or incurred is neither new nor novel. What is new is the desire
21 to develop and apply principles of ratemaking based on proper economic
22 principles which transcend class and circumstance.

1 **Retain Uniform Incremental Rates for Priority Mail**
2 **Pieces that Weigh Between 2 and 5 Pounds**

3 Unzoned, uniform rates for Priority Mail paying the 3-, 4- or 5- pound
4 rate were first adopted in Docket No. R90-1. In that docket, the increment
5 between zoned rates varied in a manner that was almost surely meaningless
6 to many Priority Mail users. Each increment depended upon the underlying
7 cost that was averaged across all zones. In other words, the Priority Mail
8 rate for a 2-, 3-, 4- or 5-pound package incorporated extremely wide
9 averaging across all eight zones, but there was little or no averaging between
10 different weights.

11 In Docket R94-1, in response to a proposal made by Nashua and
12 District, the Commission considered at length and recommended a uniform
13 increment (\$1.00 per additional pound) between each unzoned rate. (This is
14 analogous to the uniform increment for each additional ounce of First-Class
15 Mail.) It presents the mailing public with a simplified, understandable rate
16 structure. Moreover, so long as rates are unzoned, a uniform increment for
17 each additional pound appears eminently sensible.

18 In this docket, the unzoned Priority Mail rates proposed by the Postal
19 Service depart from the principle of even increments adopted in Docket No.
20 R94-1.⁴⁰ The Postal Service offers no cost justification whatsoever for this

⁴⁰ The first increment proposed by the Postal Service is \$1.20, followed
by subsequent increments of \$1.10.

1 move. The rationale apparently is based on a desire to restrain (i) the
2 increase in the minimum 2-pound rate (at the expense of all heavier-weight
3 pieces), and (ii) the “gap” between the minimum Priority Mail rate and the
4 maximum (11-ounce) First-Class rate, while meeting the target contribution
5 for Priority Mail.

6 The unzoned rates proposed by NDMS retain the Commission’s
7 principle of even increments. This is achieved by increasing the minimum 2-
8 pound rate to \$3.30, so that the increment for each additional pound is \$1.10.
9 (Additional discussion of the rationale for this change is set out, *infra*, in
10 Section VI.) Rates proposed for 3-, 4- and 5-pound packages are identical to
11 those proposed by the Postal Service.

12 Elimination of Presort Discounts

13 In this docket, the Postal Service proposes to eliminate the 10-cent-
14 per-piece presort discount for Priority Mail. As witness Sharkey points out,
15 this rate category is little used, and has limited volume. Reasons for the
16 small usage of the presort discount are several.

17 First, presorting by mailers requires extra space, labor and possibly,
18 sorting equipment. In other words, presorting costs money, and the 10-cent
19 discount is **gross** savings to mailers. After taking account of the cost to
20 presort, **net** savings may be small or even nonexistent.

1 Second, presorting requires that mail be held and “massed” until the
2 volume is sufficient to meet the required minimum. This may be considered
3 counter-productive by mailers who are using Priority Mail because they want
4 to **expedite** packages to addressees. As discussed in Section VII, *infra*,
5 actual delivery performance of Priority Mail is already too inconsistent and
6 unreliable for what purports to be a premium service. Any mailer with
7 enough volume to presort inevitably will also have experienced the
8 inconsistent delivery service provided by Priority Mail. Under the
9 circumstances, it makes little sense to retain Priority Mail at the originating
10 point for a mere 10-cent presort saving. The best way to expedite Priority
11 Mail is to enter it with the Postal Service as soon as possible, not hold on to it
12 to obtain a tiny discount.

13 In conclusion, I concur with the Postal Service’s recommendation to
14 discontinue the presort discount for Priority Mail. Accordingly, the NDMS
15 rates proposed herein do not provide for such a discount.

1 **VI. PROPOSED PRIORITY MAIL RATES**

2 **Highlight of Proposed Rates**

3 The rates proposed herein (Table 4) have been designed to provide the
4 same contribution in excess of volume-variable costs as the rates proposed by
5 the Postal Service. These rates thus enable the Commission to weigh on an
6 apples-to-apples basis the merits of the alternative rate design proposed here
7 without any complications that arise from a different level of coverage. For
8 reasons discussed in Section VII, *infra*, the Commission should consider
9 reducing the coverage on Priority Mail, regardless of the rate design which it
10 finally recommends.

11 No changes are proposed in the basic rate structure for Priority Mail.
12 Rates for packages weighing up to 5 pounds are unzoned, and rates for
13 packages that weigh more than 5 pounds continue to be zoned. Also, the
14 rates presume that a flat-rate envelope may be sent at the two-pound rate
15 regardless of the actual weight of the piece.

16 In keeping with the Commission's practice, all rates have been
17 rounded to the nearest nickel. Rates proposed here distinguish between
18 distance- and non-distance-related transportation costs, as discussed in
19 Section V of this testimony.

1 **Unzoned rates.** Within the 2- to 5-pound range of unzoned rates, the
 2 minimum rate for a 2-pound piece is \$3.30, which is 10 cents greater than the
 3 \$3.20 rate proposed by the Postal Service. For packages weighing up to 3, 4
 4 and 5 pounds, the additional fee is a uniform \$1.10 per pound. Moreover,
 5 these three unzoned rates are identical to those proposed by the Postal
 6 Service. Consequently, they do not create any new anomalies with rates
 7 proposed for Standard B parcel post packages of 3, 4 and 5 pounds.

8 **Zoned rates.** Above 5 pounds, all rates are zoned. For any given
 9 weight, the incremental fee for sending a piece to a more distant zone reflects
 10 distance-related transportation cost plus a 1 percent contingency; *i.e.*, the
 11 increment in the fee reflects a 100 percent passthrough of distance-related
 12 transportation costs, plus contingency.⁴¹ The biggest change occurs in the
 13 rates for Zone L,1,2&3. These rates decline somewhat, reflecting the lower
 14 cost of surface transportation.

15 In every instance, the zoned rates proposed here are lower than those
 16 proposed by the Postal Service. The reduction in rates to Zones 6, 7 and 8
 17 creates certain anomalies with rates proposed for Standard B parcel post.
 18 For reasons not altogether clear, the cost of long-distance surface
 19 transportation used for parcel post appears to be somewhat higher than the

⁴¹ In this docket, for the first time, the Postal Service has distinguished and identified clearly all distance- and non-distance-related costs for all modes used to transport Priority Mail. Through Zone 4, distance-related costs reflect a mix of surface and air; beyond Zone 4, air transportation is used exclusively.

1 cost of air transportation.⁴² Assuming the Commission recommends the rates
 2 proposed here, parcel post rates should be adjusted accordingly. This is the
 3 approach that has been taken historically. Priority Mail is a highly
 4 profitable product, and each rate cell of Priority Mail is also clearly
 5 profitable. Volume and revenues of parcel post, by contrast, are much
 6 smaller, and parcel post is only marginally profitable. It would not make
 7 good business sense to raise Priority Mail rates to an artificially high level
 8 just to prevent an anomaly with parcel post rates.

9 In connection with this proposal to reduce local rates, it is worth
 10 noting that where rates are not zoned — *i.e.*, for packages weighing up to 5
 11 pounds — and where mailers incur no extra fee for sending packages greater
 12 distances, 50 percent of total Priority Mail volume is within Zone L,1,2&3. *A*
 13 *priori*, one might have expected mailers to take advantage of unzoned rates
 14 by using Priority Mail for a disproportionate share of their long-distance
 15 shipments. Interestingly, however, exactly the opposite has occurred. For
 16 packages that weigh more than 5 pounds where rates are zoned, only 35
 17 percent of total Priority Mail volume is to Zone L,1,2&3. Thus, while all

⁴² Parcel post travels with other classes of mail, and the transportation costs distributed to parcel post are a result of TRACS. The high unit cost of transporting parcel post may be “real” (in which case the Postal Service should divert long-distance parcel post to Priority Mail), or it may be nothing more than an artifact of TRACS.

1 zoned rates for Priority Mail are too high,⁴³ the rates most out of line with
2 competition may be the local zoned rates. If so, this reduction in local rates
3 would appear to be highly desirable.

4 **Pickup service.** The Postal Service has proposed a 67 percent
5 increase in the pickup service fee, from \$4.95 to \$8.25. The increase proposed
6 for this fee appears exorbitant. At the same time, however, this pickup fee
7 applies to Express Mail and parcel post, as well as Priority Mail. It would
8 not make sense to retain the old fee for Priority Mail while increasing it for
9 the other classes. Accordingly, I do not present any alternative to the Postal
10 Service's proposed \$8.25 fee for pickup service.

⁴³ The extra 92.5 cents currently being paid on average by every zoned parcel as the result of the artificial reduction in the unzoned weights following Docket No. R94-1 is discussed *supra*.

Table 4

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REVISED 2/11/98

Priority Mail
NDMS Proposed Rates

Weight (Pounds)	L 1,2&3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
FLAT	\$3.30	\$3.30	\$3.30	\$3.30	\$3.30	\$3.30
2	3.30	3.30	3.30	3.30	3.30	3.30
3	4.40	4.40	4.40	4.40	4.40	4.40
4	5.50	5.50	5.50	5.50	5.50	5.50
5	6.60	6.60	6.60	6.60	6.60	6.60
6	6.70	6.90	7.00	7.70	7.95	8.80
7	6.80	7.00	7.75	8.55	8.85	9.85
8	6.90	7.35	8.45	9.40	9.75	10.90
9	7.00	7.95	9.20	10.25	10.65	11.90
10	7.10	8.50	9.95	11.10	11.55	12.95
11	7.20	9.10	10.65	11.95	12.45	13.95
12	7.30	9.70	11.40	12.80	13.30	15.00
13	7.40	10.30	12.10	13.60	14.20	16.05
14	7.50	10.90	12.85	14.45	15.10	17.05
15	7.60	11.45	13.60	15.30	16.00	18.10
16	7.70	12.05	14.30	16.15	16.90	19.10
17	7.80	12.65	15.05	17.00	17.80	20.15
18	8.10	13.25	15.75	17.85	18.65	21.20
19	8.40	13.80	16.50	18.70	19.55	22.20
20	8.70	14.40	17.25	19.55	20.45	23.25
21	9.00	15.00	17.95	20.40	21.35	24.30
22	9.30	15.60	18.70	21.25	22.25	25.30
23	9.65	16.20	19.40	22.10	23.10	26.35
24	9.95	16.80	20.15	22.95	24.00	27.35
25	10.25	17.35	20.90	23.75	24.90	28.40
26	10.55	17.95	21.60	24.60	25.80	29.45
27	10.85	18.55	22.35	25.45	26.70	30.45
28	11.15	19.15	23.05	26.30	27.60	31.50
29	11.45	19.70	23.80	27.15	28.45	32.50
30	11.75	20.30	24.55	28.00	29.35	33.55
31	12.05	20.90	25.25	28.85	30.25	34.60
32	12.35	21.50	26.00	29.70	31.15	35.60
33	12.65	22.05	26.70	30.55	32.05	36.65
34	12.95	22.65	27.45	31.40	32.90	37.70
35	13.30	23.25	28.20	32.25	33.80	38.70
36	13.60	23.85	28.90	33.10	34.70	39.75
37	13.90	24.45	29.65	33.90	35.60	40.75
38	14.20	25.00	30.35	34.75	36.50	41.80
39	14.50	25.60	31.10	35.60	37.40	42.85
40	14.80	26.20	31.80	36.45	38.25	43.85
41	15.10	26.80	32.55	37.30	39.15	44.90
42	15.40	27.40	33.30	38.15	40.05	45.95
43	15.70	27.95	34.00	39.00	40.95	46.95
44	16.00	28.55	34.75	39.85	41.85	48.00
45	16.30	29.15	35.45	40.70	42.70	49.00
46	16.60	29.75	36.20	41.55	43.60	50.05
47	16.95	30.30	36.95	42.40	44.50	51.10
48	17.25	30.90	37.65	43.25	45.40	52.10
49	17.55	31.50	38.40	44.05	46.30	53.15
50	17.85	32.10	39.10	44.90	47.20	54.15
51	18.15	32.70	39.85	45.75	48.10	55.20
52	18.45	33.25	40.60	46.60	48.95	56.25
53	18.75	33.85	41.30	47.45	49.85	57.25
54	19.05	34.45	42.05	48.30	50.75	58.30
55	19.35	35.05	42.75	49.15	51.65	59.35
56	19.65	35.60	43.50	50.00	52.50	60.35
57	19.95	36.20	44.25	50.85	53.40	61.40
58	20.30	36.80	44.95	51.70	54.30	62.40
59	20.60	37.40	45.70	52.55	55.20	63.45
60	20.90	38.00	46.40	53.40	56.10	64.50
61	21.20	38.55	47.15	54.20	57.00	65.50
62	21.50	39.15	47.90	55.05	57.85	66.56
63	21.80	39.75	48.60	55.90	58.75	67.55
64	22.10	40.35	49.35	56.75	59.65	68.60
65	22.40	40.95	50.05	57.60	60.55	69.65
66	22.70	41.50	50.80	58.45	61.45	70.65
67	23.00	42.10	51.55	59.30	62.35	71.70
68	23.30	42.70	52.25	60.15	63.20	72.75
69	23.60	43.30	53.00	61.00	64.10	73.75
70	23.95	43.85	53.70	61.85	65.00	74.80

1 **NDMS' Proposed Rates are Cost-Based**

2 Rates proposed here have been developed on a bottom-up basis, using
3 the costs in USPS-T-33. The average unit cost and unit contribution are
4 developed at the rate element level.⁴⁴ Specifically, volume-variable costs in
5 each rate cell consist of the following four components:

- 6 • A per-piece amount (\$1.21);
- 7 • 2 cents per pound;
- 8 • Non-distance-related transportation costs, distributed according
9 to weight and zone;⁴⁵ and
- 10 • Distance-related transportation costs, distributed according to
11 weight and zone.

12 The resulting unit cost for each cell is provided in Appendix C, Table
13 C-2, and also in witness Sharkey's response to UPS/USPS-T33-67 (revised
14 10/6/97) (Tr. 4/2097).

15 To develop preliminary rates, a 1 percent contingency is added to all
16 volume-variable costs. The sum of the first three components is then marked
17 up by 115 percent. Next, distance-related costs (including the 1 percent

⁴⁴ This is in contrast to the procedure used by the Postal Service. See response of witness Sharkey to NDMS/USPS-T33-4 (Tr. 4/1949).

⁴⁵ Non-distance-related costs differ as between surface and air transportation. Priority Mail packages to zones that use surface transportation (through Zone 4) incur lower non-distance-related costs than do packages that are sent to zones served exclusively by air (Zones 5-8).

1 contingency) are added to each rate cell.⁴⁶ The preliminary unzoned rates are
2 then adjusted so as to have a uniform increment, without diminishing
3 revenues for pieces that weigh up to 5 pounds. Zoned rates are adjusted so
4 that (i) no zoned rate is less than an unzoned rate, and (ii) a smooth
5 transition is provided between zoned and unzoned rates. All rates are
6 rounded to the nearest nickel. Aside from the adjustments described here,
7 all zoned rates are set according to the cost-based formula set out above.

8 **Contribution and Coverage from Proposed Rates**

9 *Projected volumes and revenues from Priority Mail rates proposed*
10 here and by the Postal Service are shown in Table 5. In both cases, the
11 alternative procedure described in Section IV, *supra*, has been used to
12 develop TYAR volumes, revenues, costs, and contribution. Thus, the data
13 shown in Table 5 provide an apples-to-apples comparison between the two
14 proposals.

⁴⁶ All volume-variable costs thus include a 1 percent contingency.

Revised 2/11/98

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Table 5		
Priority Mail		
Comparison of Revenues, Costs and Contribution		
from Postal Service and NDMS Proposed Rates		
(000)		
	<u>Postal</u>	<u>NDMS</u>
	<u>Service</u>	
Revenues	\$4,133,916	\$4,148,097
Costs	<u>2,152,087</u>	<u>2,141,759</u>
Contribution	\$1,981,829	\$2,006,338
Mark-up	92.1%	93.7%
Volume	1,088,680	<u>1,077,498</u>

Sources: Appendix B for Postal Service proposal,
Appendix C for NDMS proposal.

28 **Volumes.** Under rates proposed here, the projected TYAR volume is
29 1,077.5 million pieces, while the volume under the Postal Service's proposed
30 rates is 1,088.7 million pieces. Under the rates proposed here, the volume of
31 two-pound/minimum-rate pieces decreases, while the volume of heavier-
32 weight pieces increases, when contrasted with the Postal Service's proposal.

33 **Revenues.** Revenues from rates proposed here exceed those from the
34 Postal Service proposal by a slight amount (\$14,181,000, or 0.3 percent),

1 since heavier-weight pieces produce more revenue, as well as greater
2 contribution per piece than lighter-weight pieces.

3 **Costs.** The volume-variable cost of delivering the volume of Priority
4 Mail that arises from rates proposed here, in comparison with the cost
5 associated with the Postal Service's proposal, is slightly less (by ~~\$10,328,000~~
6 or 0.5 percent).

7 **Contribution and mark-up.** Under rates proposed here, revenues
8 are up (slightly), costs are down (slightly), and thus the contribution exceeds
9 by a small amount, ~~\$24,485,000~~, that provided by the Postal Service
10 proposal. Contribution as a percent of volume-variable costs is 93.7 percent,
11 up from 92.1 percent for the Postal Service proposal.

12 This excess contribution could have been used to effect a small
13 reduction in some of the rates proposed here. It was decided, however, not to
14 deviate from the cost-based formula described previously in order to provide
15 a direct counter-point to the Postal Service's proposed rates.

17 **Proposed Rates and the Statutory Criteria**

18 The rates proposed here for Priority Mail satisfy each of the applicable
19 statutory criteria set forth in 39 U.S.C. Section 3622(b).

20 In terms of fairness and equity, criterion (b)(1), the proposed rates
21 provide for (i) a rate increase that is above the system average, (ii) a high
22 mark-up over volume-variable cost, (iii) a higher coverage of **incremental**

1 cost, and (iv) a contribution that exceeds **incremental** cost by some \$1.7
2 billion. Priority Mail is clearly paying its share, if not more than its share, of
3 the Postal Service's institutional costs.

4 In terms of value of service, criterion (b)(2), Priority Mail has poorer
5 performance and receives a lower value of service than either Express Mail
6 or First-Class Letter Mail. Moreover, since August 16, 1996, any stamped
7 Priority Mail piece weighing more than one pound must be entered at a post
8 office counter, which denies the convenience of the collection system to a
9 substantial portion of Priority Mail.⁴⁷ In light of the delivery performance in
10 1995, 1996, and the first three quarters of 1997 (discussed in Section VII,
11 *infra*), it is difficult to justify even my proposed mark-up, much less a higher
12 mark-up.⁴⁸

13 In terms of cost, criterion (b)(3), the high mark-up over volume-
14 variable cost assures that rates proposed for Priority Mail will recover all
15 **incremental** costs, with ample margin for safety.

16 In terms of the effect of rate increases, criterion (b)(4), the highest
17 percentage increase proposed here for any Priority Mail rate cell is only 10
18 percent, which is less than the 16 percent increase proposed by the Postal
19 Service. The rate cells receiving the largest increases now, received the

⁴⁷ Response of witness Sharkey to NDMS/USPS-T33-11 (Tr. 4/1959).

⁴⁸ See Section VII, *infra*, for additional discussion of performance.

1 artificially small increases in Docket No. R94-1. The fact that rates proposed
2 here reflect a mark-up of 115 percent on all costs except distance-related
3 transportation cost assures that the Postal Service will not be competing
4 unfairly with private sector competitors.

5 In terms of available alternatives, Section 3622(b)(5) refers to
6 available alternatives for sending letters and other mail matter at reasonable
7 cost. This criterion has been used by the Commission to consider whether
8 customers with few alternatives ought to be protected by rates that are lower
9 than might otherwise be recommended. This is accomplished in part by the
10 companion proposal to increase the maximum weight of First-Class Mail.
11 The market for expedited delivery is highly competitive, which generally acts
12 to protect customers from excessive rates. However, rates for Priority Mail in
13 excess of 5 pounds generally appear to be non-competitive, based on low
14 market share. Thus, to the extent that this criterion applies to Priority Mail,
15 for all packages weighing more than 5 pounds, it is better satisfied by rates
16 proposed here than by those proposed by the Postal Service.

17 In terms of degree of preparation, criterion (b)(6), the Postal Service
18 proposes to discontinue the discount for presorted Priority Mail because
19 worksharing has been so little utilized by customers, hence, this criterion
20 does not appear to have much applicability to Priority Mail.

1 In terms of simplicity, criterion (b)(7), the uniform \$1.10 increment for
2 the unzoned portion of the rate schedule represents an improvement over the
3 rates proposed by the Postal Service.⁴⁹

4 **Other Considerations**

5 **Proposed rates are cost-based.** The rates proposed here are based
6 on (i) **marked-up** volume-variable costs (excluding distance-related costs),
7 **plus** (ii) distance-related transportation costs **at 100 percent passthrough.**
8 Thus developed, the zoned rates are strictly cost-based, while the unzoned 2-
9 to 5-pound rates have been averaged across zones (by definition) so as to
10 have a uniform weight increment.⁵⁰ Because the rates are cost-based, every
11 rate cell provides the Postal Service with a contribution to its other costs.
12 For selected rate cells, examples of margins, or contribution to other costs,
13 that result from the NDMS proposed rates are shown in Table 6.

14 The desirability of averting the loss of market share for highly
15 profitable heavier-weight Priority Mail parcels should be clear. Many

⁴⁹ The uniform increment is consistent with the Commission's view of the Act. *Op. & Rec. Dec.*, Docket No. R94-1, p. V-40.

⁵⁰ Strict application of the formula used here, without averaging between the 2-, 3-, 4- and 5-pound rates, would result in a minimum rate of \$3.40.

1 Priority Mail rate cells return a per-piece contribution to institutional costs
2 that exceeds \$8.50, the contribution of 50 First-Class mailpieces.⁵¹

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Table 6

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Margins From NDMS Proposed Priority Mail Rates
6 Selected Rate Cells⁵²

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Weight (lbs)	L,1,2&3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
2	1.66	1.38	1.29	1.11	1.01	0.73
5	4.32	3.63	3.41	2.97	2.70	2.01
10	3.77	3.79	4.78	5.06	4.98	4.98
20	3.27	6.19	8.14	8.70	8.52	8.54
30	4.21	8.60	11.49	12.33	12.07	12.77
40	5.15	11.01	14.80	15.97	15.62	15.65
50	6.10	13.42	18.16	19.60	19.22	19.21
60	7.04	15.83	21.51	23.29	22.77	22.82
70	7.99	18.18	24.87	26.92	26.32	26.37

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Source: Proposed Rates (Table 4) - costs (Appendix C, Table C-2)

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Proposed rates restore balance. It may appear that the rates proposed in this testimony unabashedly favor the zoned rates for Priority Mail pieces that weigh between 5-70 pounds. Nevertheless, two points should be considered. First, these rates apply the rate design principles set

⁵¹ The average 17.0-cent First-Class Mail (reflecting all First-Class mailpieces) after-rates contribution per piece is from Exhibit USPS-15J, p. 15.

⁵² Throughout this testimony the term "**margin**" will refer to the difference, stated as an absolute amount, between rates and volume-variable unit costs, and "**mark-up**" will refer to the percentage difference by which rates exceed unit costs. The margin thus represents a shorthand expression for per-piece contribution to the Postal Service's other costs.

1 out herein which should be adopted. Second, it is noted that in Docket No.
 2 R94-1, the Commission artificially reduced the minimum rate for Priority
 3 Mail below that proposed by either the Postal Service or NDMS, while
 4 increasing zoned rates substantially above those proposed by the Postal
 5 Service. The rates proposed here attempt to rectify this earlier tilt in the rate
 6 schedule against heavy-weight Priority Mail. Because of this, it adds
 7 perspective to compare Priority Mail rates proposed by me in this docket with
 8 the Priority Mail rates that were approved in Docket No. R90-1, prior to the
 9 distortion of relative rates in Docket No. R94-1. Such a comparison shows
 10 that under my proposed rates the minimum 2-pound rate would be up 13.8
 11 percent, while selected zoned rates would change as follows:

12	Weight						
13	(lbs)	L,1,2&3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
14	10	11.8%	12.6%	16.4%	13.3%	3.6%	1.2%
15	20	-15.5	13.4	16.9	13.3	2.5	0.2
16	30	-17.8	13.4	16.9	13.1	2.1	-0.3
17	40	-18.9	13.7	16.9	13.2	1.9	-0.5
18	50	-19.8	13.6	17.1	13.2	1.8	-0.6
19	60	-20.4	13.6	17.2	13.4	1.7	-0.7
20	70	-20.7	13.6	17.3	13.4	1.6	-0.7

21 Many L,1,2,3 rates are actually reduced due to rates which better
 22 reflect the reduced cost of surface transportation. The rates to intermediate
 23 Zones 4, 5 and 6 are seen to have a percentage increase about the same as
 24 the minimum rate. Rates to Zones 7 and 8 are essentially unchanged, in part
 25 due to the lack of any mark-up on distance-related transportation costs and

1 to the categorization of terminal handling costs as non-distance-related by
2 the Commission in Docket No. R94-1.

3 In 1990, the volume of heavier-weight pieces of Priority Mail over 5
4 pounds was 27,609,000, which equaled 5.43 percent of the total volume.
5 By 1996, the volume of heavier-weight pieces had grown only to 38,484,000,
6 while the percentage had dropped by almost 25 percent to only 4.11
7 percent of the total volume.

8 The proposed rates make good business sense. As noted
9 previously, the unzoned rates at the low end of the rate scale, especially the
10 minimum rate, appear to be highly competitive. This is reflected in the
11 Postal Service's large share of this portion of the expedited market (as well as
12 its advertising).

13 Over 5 pounds, Priority Mail rates are much closer to competitors'
14 published rates, which typically are discounted to regular shippers.⁵³ As
15 noted previously, Priority Mail suffers a number of competitive
16 disadvantages which it can only hope to overcome by means of lower rates.
17 That Priority Mail rates offer little inducement in this portion of the market
18 is evidenced by the Postal Service's small and declining market share.⁵⁴

⁵³ Response of witness Sharkey to NDMS/USPS-T33-9 (Tr. 4/1955).

⁵⁴ Priority Mail offers the advantage of convenience and easy entry to shippers who want to dropship Standard A packages to SCFs. Were it not for Priority Mail dropship, Priority Mail's share of the heavier-weight market would have lost even more volume due to the artificially high increases in rates for zoned
(continued...)

1 Why should the Postal Service care about the heavier-weight portion of
2 the expedited market? Because, as Willie Sutton said, "that's where the
3 money is!" As shown in Table 6, the margin on heavier-weight packages can
4 be several times the gross revenue from a 2-pound package. That, of
5 course, is one reason why the Postal Service's competitors have competed so
6 vigorously for that portion of the market.

7 For the stated reasons, the principles of rate design proposed here
8 would result in rates that are more beneficial for the Postal Service than the
9 rates which the Postal Service itself has proposed.

⁵⁴(...continued)

Priority Mail in Docket No. R94-1, and current volumes might be quite small indeed.

1

VII. COVERAGE CONSIDERATIONS

2 When the Postal Service originally filed its case, the coverage proposed
3 for Priority Mail was 198 percent. Subsequently, owing to revised treatment
4 of certain transportation costs, the coverage for Priority Mail was revised to
5 192 percent.⁵⁵ Even though the coverage has been revised downward, it is
6 still far higher than circumstances warrant.⁵⁶ Although the NDMS proposed
7 rates provide coverage and contribution to institutional costs comparable to
8 those of the Postal Service's proposal, *supra*, there is little justification for
9 assigning such a high coverage factor to Priority Mail. The following
10 reasons, discussed in more detail within this section, all argue against
11 maintaining a high coverage factor for Priority Mail:

- 12 • Actual performance that is far below established
13 standards;
- 14 • Effects of the new PMPC network on delivery
15 performance and cost;
- 16 • Lack of customer-desired features;
- 17 • Declining market share;

⁵⁵ Response of witness Patelunas to UPS/USPS-T33-36 (Tr. 13/7293).

⁵⁶ Furthermore, certain costs attributed to Priority Mail may be overstated, as explained in Section VIII, *infra*.

- 1 • Disparity in rates and market share between
2 lower and higher weights; and
- 3 • High own-price elasticity.
4

5 **Value of Service**

6 The Postal Service's designated expert for determining coverage,
7 witness O'Hara, based the relatively high cost coverage of Priority Mail on its
8 "high intrinsic value of service," including the following three justifications
9 for this evaluation:

- 10 • Priority Mail enjoys the same priority of delivery as
11 First-Class letters;
- 12 • Priority Mail receives greater use of air
13 transportation than First-Class, due to its larger two-
14 day service area;⁵⁷ and
- 15 • Priority Mail enjoys the convenience of the collection
16 system for the unzoned two-pound rate packages that
17 constitute a large share of its volume.⁵⁸

18 Of the nine criteria specified in 39 U.S.C. Section 3622(b), number 2,
19 the value of service, does indeed appear to be of considerable importance for

⁵⁷ Witness O'Hara fails to note that under the new PMPC contract (discussed below in this section) the Postal Service is moving to expand the geographic area and the amount of Priority Mail that is served by **surface** transportation.

⁵⁸ USPS-T-30, p. 27. Mailers without meters do not enjoy the full convenience of the collection system. Stamped Priority Mail pieces that weigh more than one pound must be entered with a postal clerk, and almost every collection box in the country has a notice to that effect. See response of witness Sharkey to NDMS/USPS-T33-11 (Tr. 4/1959) and response of witness O'Hara to APMU/USPS-T30-1 (Tr. 2/117).

1 Priority Mail. Wherever suitable, however, value of service should be based
2 on facts, not on reference to abstractions such as “standards,” or “priorities,”
3 or even “use of air transportation.” For years the Postal Service has defended
4 Priority Mail as having some special, distinctive qualities that enhance the
5 “intrinsic” value of service.⁵⁹ Unfortunately, the facts show otherwise.

6 **Actual Performance Far Below Established Standards**

7 **Delivery standards.** In the course of the last omnibus rate case, the
8 Postal Service finally admitted that it cannot deliver all Priority Mail within
9 two days, as it had advertised. For many origin-destination pairs, Priority
10 Mail has a three-day standard, even though its competitors guarantee two-
11 day delivery between the same origins and destinations. Regrettably, but for
12 good reason, many customers consider Priority Mail a three-day service
13 comparable to First-Class Mail, rather than a superior service.

14 Moreover, Priority Mail still falls far short of its promises. As
15 discussed below, the Postal Service falls woefully short of its own service
16 standard, or “commitment,” of 95-percent on-time delivery within Priority
17 Mail’s one-, two-, and three-day delivery areas. Let us review the available
18 data and facts.

⁵⁹ According to the dictionary, “priority” means taking precedence, or being superior in rank, position or privilege. Thus, the name alone gives this class of mail a certain aura.

1 **Actual performance.** Independently gathered end-to-end
2 performance data are the only truly reliable data for assessing delivery
3 performance. The lack of such data has created a sort of vicious cycle.
4 Because so few data have existed, the Commission has been unable to cite to
5 actual performance when assessing value of service, and then determining
6 appropriate coverage before setting rates. In the absence of strong urging by
7 the Commission, the Postal Service has given low priority to implementing
8 end-to-end performance measurement for important subclasses, such as
9 Priority Mail.⁶⁰

10 Finally, during the pendency of this docket, on September 13, 1997, an
11 external measurement of Priority Mail service performance was implemented
12 by the Postal Service. However, the Postal Service states that “[n]o public
13 disclosure of Priority Mail results is expected at this time.”⁶¹ This would be
14 most regrettable, since performance measurement data are the cornerstone
15 for any meaningful discussion of actual performance or value of service.

16 Unfortunately, other than ODIS, which measures time-in-transit from
17 postmark or meter date to delivery at the DDU, and indicates operational
18 performance, the Postal Service has no data available to compare First-Class

⁶⁰ The unfortunate result is akin to that of a person who knows the cost
of everything and the value of nothing.

⁶¹ Response of witness Sharkey to APMU/USPS-T33-4(f) (Tr. 4/1930).
The extended Priority Mail performance data are designed around the cluster level,
whereas external First-Class performance data are designed around the city level.
APMU/USPS-T33-6 (Tr. 4/1933).

1 to Priority Mail service.⁶² In order to break out of this cycle, one has to start
2 somewhere. Until better data are available, I urge the Commission to utilize
3 and rely on ODIS data for determining value of service.

4 **Overnight standard.** The overnight delivery areas for First-Class
5 and Priority Mail coincide.⁶³ Neither is larger than the other.
6 Furthermore, almost 50 percent of the total volume of Priority Mail requires
7 delivery within the L,1,2&3 Zone. A substantial portion of this mail
8 undoubtedly has an overnight delivery standard. A comparison of First-
9 Class and Priority Mail with overnight delivery standard thus represents one
10 possible apples-to-apples comparison that is meaningful for a significant
11 portion of the mail.

12 The ODIS data in Figure 1 span three fiscal years, 1995-1997. From
13 this figure, it can be observed readily that in every available quarter of this
14 three-year period, Priority Mail for delivery within overnight areas always
15 received poorer performance than First-Class Mail addressed to overnight
16 areas. According to these ODIS data, approximately 14.5 percent of Priority
17 Mail failed timely overnight arrival at the delivery unit, compared to only
18 5.25 percent for First-Class Mail. In other words, Priority Mail addressed to

⁶² ODIS data include only Priority Mail that is stamped or metered and has a readable postmark date. Response of witness Sharkey to NDMS/USPS-T33-10 (Tr. 4/1958).

⁶³ Response of witness Sharkey to APMU/USPS-T33-2 (Tr. 4/1928).

1 overnight delivery areas failed timely arrival at the delivery unit almost
2 three times more often than First-Class Mail. Priority Mail thus suffered
3 far more inconsistent and unreliable service than did First-Class Mail.

4 **Two-day service standard.** Admittedly, the two-day service
5 commitment areas for First-Class Mail are not contiguous with those for
6 Priority Mail, which must reach a wider area.⁶⁴ ODIS data for achieving two-
7 day standards show that Priority Mail consistently performs worse than
8 First-Class Mail. In the 11 quarters reviewed here (FY 1995-1997), Priority
9 Mail with a two-day standard failed on-time arrival at the delivery unit 24
10 percent of the time, compared to 14 percent for First-Class mail with a two-
11 day standard; *i.e.*, the two-day failure rate for Priority Mail was over 70
12 percent worse than First-Class Mail. Having acknowledged that areas with a
13 two-day standard do not coincide, it is nevertheless difficult to discern
14 anything whatsoever that is special about the performance of Priority Mail in
15 comparison with First-Class Mail.

16 **Three-day standard.** Since areas for two-day delivery are not
17 contiguous, neither are the areas for three-day delivery.⁶⁵ In some areas,
18 First-Class Mail may have an easier time achieving the three-day standard.
19 With that said, ODIS data indicate that First-Class Mail failed to meet its

⁶⁴ Response of witness O'Hara to APMU/USPS-T30-2 (Tr. 2/118), and response of witness Sharkey to APMU/USPS-T33-1 (Tr. 4/1926).

⁶⁵ Response of witness O'Hara to APMU/USPS-T3-2 (Tr. 2/118).

1 three-day standard about 15.5 percent of the time, while Priority Mail failed
2 to meets its three-day standard about 22.3 percent of the time; *i.e.*, for the
3 three-day standard, Priority Mail had a failure rate about 50 percent greater
4 than First-Class Mail.

5 **Delivery within 3 days.** Another worthwhile comparison enabled by
6 ODIS data is the percentage of mail delivered within 3 days, regardless of
7 service standard. In this respect, Priority Mail also failed to perform as
8 well as First-Class Mail during the period FY 1995-1997. Over these 11
9 quarters, the share of First-Class and Priority Mail that failed to arrive at
10 the delivery unit within 3 days was, respectively, 6.2 and 7.5 percent.

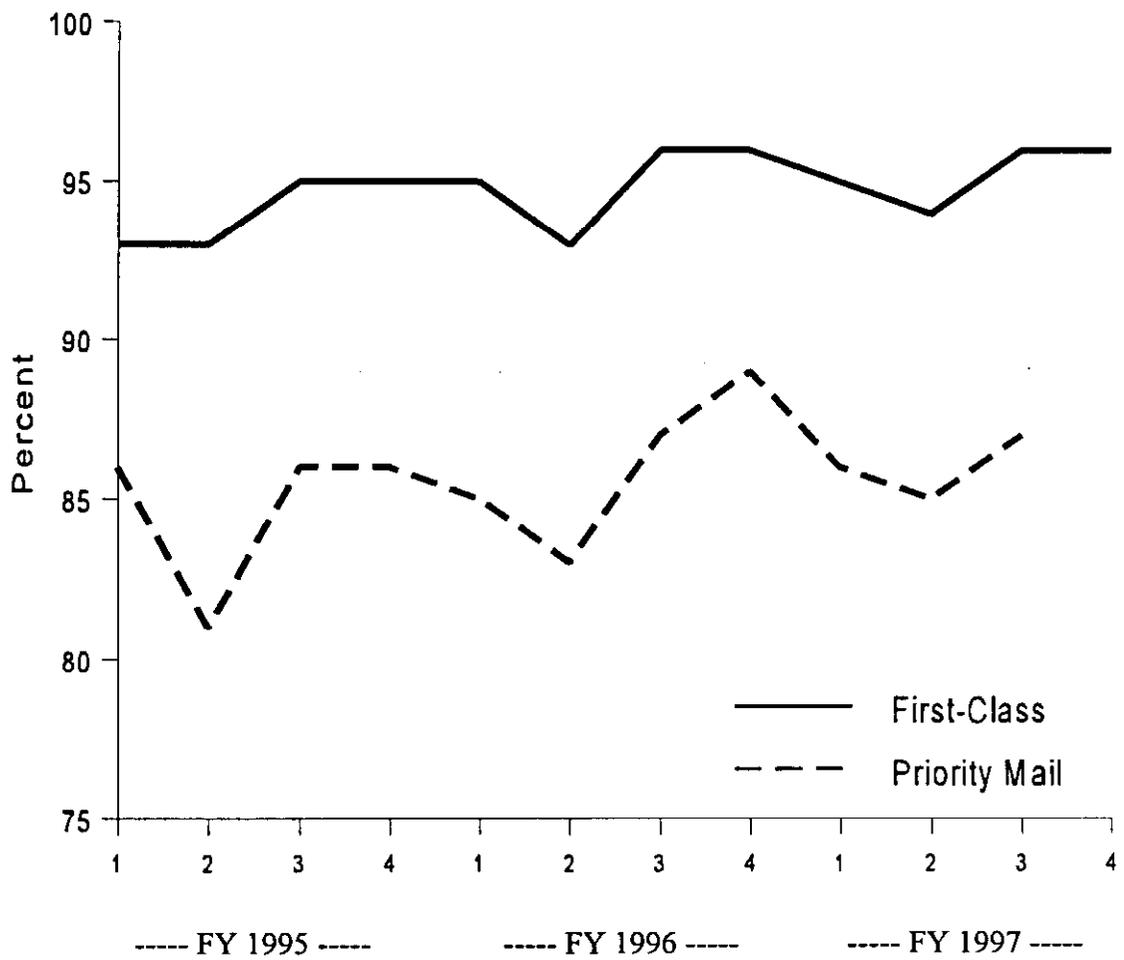
11 To sum up this review of the only available comparable performance
12 data, no matter how one examines the issue, performance of Priority Mail
13 has been less consistent and reliable than First-Class Mail.

14 **Unidentified Priority Mail.** Pieces that pay full Priority Mail rates
15 but are otherwise unidentified as Priority Mail are likely to be handled as
16 First-Class Mail. In FY 1996, 63 percent of Priority Mail was identified and
17 37 percent was unidentified; in FY 1997, the percentages were 67 and 33.⁶⁶
18 Thus, a large portion of Priority Mail still remains unidentified through the
19 system and is handled as heavy-weight First-Class Mail. Fully one-third of
20 all Priority Mail is simply handled as First-Class Mail. For this one-third of

⁶⁶ Response of witness Moden to APMU/USPS-T33-13(d) (Tr. 11/5640).

1 Priority Mail, absolutely no difference exists in handling between Priority
 2 Mail and First-Class Mail; hence, one can hardly say that Priority Mail
 3 achieves greater priority in processing and performance.

4 Figure 1
 5 ODIS Data Comparing Performance of
 6 First-Class and Priority Mail with an
 7 Overnight Delivery Standard
 8 1995-1997



11 Source: Table 7.

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Table 7

Performance of First-Class and Priority Mail
Based on ODIS Data
FY 1995 - FY 1997

Year	Qtr	Overnight Standard		Two-Day Standard		Three-Day Standard	
		First-Class Mail	Priority Mail	First-Class Mail	Priority Mail	First-Class Mail	Priority Mail
1995	1	93	86	87	78	86	82
	2	93	81	83	72	80	67
	3	95	86	88	80	88	84
	4	95	86	88	80	88	84
1996	1	95	85	88	80	89	82
	2	93	83	81	67	76	71
	3	96	87	89	79	88	79
	4	96	89	88	82	87	82
1997	1	95	86	86	78	86	79
	2	94	85	80	65	74	66
	3	96	87	87	77	86	79
	4	96		88		86	
Sum		1,137	941	1,033	838	1,014	855
Mean		94.8	85.6	86.1	76.2	84.5	77.7
Failure Rate		5.2	14.4	13.9	23.8	15.5	22.3

Sources: First-Class data from ODIS Quarterly Statistics Report.
Priority Mail data from response of witness Moden to
DMA/USPS-T4-31b (Tr. 11/5721).

1 **The New PMPC Network Will Likely Degrade**
 2 **Delivery Performance, at Least During the Test Year**

3 **PMPC network.** On April 24, 1997, the Postal Service announced a
 4 contract with Emery Worldwide Airlines to operate a dedicated Priority Mail
 5 Processing Center ("PMPC") network for identified Priority Mail. Phase I of
 6 the PMPC network will consist of 10 PMPCs along the Atlantic seaboard.⁶⁷

7 Within this region, all Priority Mail must be handled through the
 8 PMPCs. Any plans to expand to the rest of the country in later phases are
 9 unknown.⁶⁸

10 Upon establishment of the Phase I Priority Mail processing contract,
 11 Emery will perform many of the processing and transportation functions
 12 previously performed by the Postal Service. At most, with respect to Priority
 13 Mail both sent and received within the Phase I service area (e.g., Priority

⁶⁷ Phase I PMPCs will be located in the 10 cities listed below along with their planned activation dates. Response of witness Sharkey to UPS/USPS-T33-34 (Tr. 4/2030).

Opening During The Interim Year (10/1/96 to 9/30/97):

Miami (8/30/97)
 Jacksonville (9/13/97)
 Orlando (9/20/97)
 Newark, NJ (9/27/97)

Opening During The Test Year (10/01/97 to 9/30/98):

Springfield, MA (10/04/97)
 Rochester, NY (01/03/98)
 New York Metro (01/10/98)
 Pittsburgh (01/17/98)
 Boston (01/24/98)
 Philadelphia (01/31/98)

⁶⁸ Response of witness Sharkey to NDMS-USPS-T33-2(b) (Tr. 4/1928).

1 Mail sent from Miami to Boston), the Postal Service's role will be limited to
2 (i) collecting it, (ii) tendering it to Emery at a Sectional Center Facility and
3 then receiving it sorted from Emery, and (iii) delivering it.⁶⁹

4 **Effect on delivery performance.** The goal of the new PMPC
5 network is to provide at least 96.5 percent on-time two-day service for all
6 destinations within what is called the Phase I area. The Postal Service hopes
7 that the level of service given to Priority Mail will "improve significantly."⁷⁰
8 However, "[t]he two-day goal of 96.5 percent is from USPS tender of Priority
9 Mail to the Contractor to the Contractor delivery back to the USPS."⁷¹ If the
10 definition of this "two-day goal" is a 48-hour period, it is difficult to perceive
11 how the Postal Service can achieve a high percentage of two-day **end-to-end**
12 **delivery** when the **PMPC Contractor** itself has a **two-day turnaround**
13 **time**. Mail is not tendered by the contractor to the Postal Service at
14 Destination Delivery Units; the Postal Service receives the mail at Emery
15 facilities. Within the PMPC Phase I area, delivery within overnight areas
16 could well deteriorate to two days, with end-to-end performance elsewhere
17 deteriorating to three days or longer.

18 In addition, within the eastern seaboard Phase I network, Priority
19 Mail users who currently enter their plant-loads at the nearest Airport Mail

⁶⁹ Response of witness Sharkey to UPS/USPS-T33-1 (Tr. 4/1979).

⁷⁰ Response of witness Sharkey to NDMS/USPS-T33-33 (Tr. 4/1977).

⁷¹ Response of witness Sharkey to APMU/USPS-T33-3 (Tr. 4/1929).

1 Center (AMC) will no longer be able to do so. Instead, their Priority Mail
2 must now be delivered to a postal facility, which in turn will “facilitate plant
3 loads to the PMPC where the mail will be processed, or to the nearest plant
4 served by the PMPC.”⁷² Only after processing through the PMPC will this
5 mail be transported to an AMC. This will have a substantially adverse effect
6 on Priority Mail dropshippers.

7 **Added cost.** Implementation of the PMPC network adds significantly
8 to the cost projections for Priority Mail during Test Year.⁷³ Witness
9 Patelunas states that all costs of Phase I implementation are fully volume
10 variable in the Test Year.⁷⁴ Costs of the PMPC network are discussed in
11 more detail in Section VIII, *infra*.

12 **Conclusion.** Priority Mail is being charged with the entire Phase I
13 cost for the PMPC network during the Test Year, while whatever value the
14 PMPCs may have in ultimate improvement of delivery service, if any, will
15 certainly not materialize until some time after Test Year. In fact, during the
16 Test Year, implementation of Phase I seems more likely to degrade delivery

⁷² Response of witness Sharkey to NDMS/USPS-T33-27 (Tr. 4/1971).

⁷³ Witness Patelunas includes an additional \$100 million for air transport plus an additional \$100 million for surface transportation on account of the PMPC contract. The total change in Priority Mail Air Transportation costs from the base year to the test year is 31.4 percent, while Priority Mail Highway Transportation cost increases an astonishing 104.4 percent, most as a result of Priority Mail Redesign. Response of witness Patelunas to NDMS/USPS-T15-1 (Tr. 13/7235).

⁷⁴ Response of witness Patelunas to UPS/USPS-T33-36 (Tr. 13/7293).

1 performance of Priority Mail than improve it. Thus, during Phase I
2 implementation, Priority Mail seemingly is being doubly-penalized —
3 through **higher costs and lower delivery performance.**

4 The network of dedicated PMPC facilities is an innovative attempt to
5 improve performance. At the same time, however, it is totally unproven, and
6 it could turn out to be a mistake with grave consequences. Under no
7 circumstance, therefore, should the new limited PMPC network be used as an
8 excuse to increase the coverage on Priority Mail at this early juncture.

9 **Lack of Customer-Desired Features**

10 **Delivery confirmation.** The Postal Service proposes to implement
11 delivery confirmation service as an optional service. For large Priority Mail
12 users who access the information on-line, delivery confirmation would be
13 free. For others, the proposed fee is \$0.35. Although delivery confirmation is
14 an important step in the right direction, it definitely falls short of competitive
15 offerings. Such confirmation will not provide a service comparable to
16 competitors' track-and-trace programs, which allow on-line tracing of parcels
17 and instant confirmation, including recipient's signature. The Postal
18 Service's delivery confirmation program, which has yet to be implemented, is
19 inferior because it:

- 20 • has no signature;
- 21 • has no track-and-trace capability; and

1 • is an optional, not automatic, feature.

2 **Other competitive services lacking.** Priority Mail also lacks a
3 number of other competitive features that are currently offered by the
4 competition to satisfy customer requirements. These include features such
5 as:

- 6 • inclusion of minimum insurance in the basic fee;
- 7 • consolidated billing and payment options;
- 8 • reliable scheduled pick-up services;
- 9 • volume discounts and negotiated prices;
- 10 • a variety of delivery/pricing schedules broader than those
11 offered by the Postal Service; and
- 12 • guaranteed delivery days/times.⁷⁵

13 Within the expedited delivery market, it is evident that Priority Mail
14 suffers in comparison to the competition in terms of services offered and
15 pricing flexibility. Until Priority Mail becomes more competitive in these
16 respects, it should not be saddled with too high a coverage.

17 **Declining Market Share**

18 According to witness Sharkey, "Priority Mail competes in the two-day
19 document and package market. This market is competitive, as indicated by
20 ubiquitous, aggressive and creative advertising of two-day product offerings

⁷⁵ Response of witness Sharkey to NDMS/USPS-T33-25 (Tr. 4/1968).

1 among competitors."⁷⁶ Witness Sharkey is quite correct. Moreover, as
2 discussed below, in many respects Priority Mail does not compete very well.

3 In Docket No. R90-1, record evidence showed that Priority Mail had a
4 **declining** share of an expanding market.⁷⁷ Four years later, in Docket No.
5 R94-1, Priority Mail's market share had continued to decline while the
6 market continued to expand.⁷⁸ Now, three years later, and fully seven years
7 since Docket R90-1, Priority Mail's market share **has declined still further**
8 **while the market expanded further.**⁷⁹ Priority Mail's overall market
9 share reached 62.3 percent in CY 1995/96.⁸⁰ A continuing decline in market
10 share is definitely not a healthy sign. As the Commission noted in Docket
11 No. R94-1:

12 [Priority Mail's] share by volume of the second-day package
13 market has declined from 76 percent in 1990 to 72 percent in
14 1993. (Tr. 7A/3100). This decline is a sign of potential market
15 deterioration and supports a below systemwide average rate
16 increase. [*Op. & Rec. Dec.*, Docket No. R94-1, p. V-36.]

17 Priority Mail volume growth appears robust only because of strong growth in
18 the overall market for expedited delivery.

⁷⁶ USPS-T-33, p. 18.

⁷⁷ Docket No. R90-1, USPS-T-18, p. 123.

⁷⁸ Docket No. R94-1, USPS-T-11, p. 94.

⁷⁹ Response of witness Sharkey to NDMS/USPS-T33-25 (Tr. 4/1968).

⁸⁰ *Id.* From 1995 to 1996, the growth of Priority Mail exceeded that of its competitors for the first time in at least five years. It remains to be seen whether this is a reversal of the long-term trend, or just a temporary aberration.

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2 Disparity Between Lower and Higher Weights

3 In the first three quarters of 1993, Priority Mail's market share of
4 volume (pieces) and revenues were 72.2 and 44.0 percent, respectively. The
5 wide disparity between volumes and revenues was an indication that the
6 rates in effect in 1993 caused Priority Mail's share of heavier-weight pieces to
7 range from small to negligible.⁸¹ Priority Mail revenues, as a percent of
8 overall market share, are still estimated at approximately 44 percent,⁸² and
9 Priority Mail's share of heavier-weight pieces still appears to be negligible.
10 As indicated previously (Table 2), the annual rate of growth for the volume of
11 pieces that weigh between 5 - 70 pounds was substantially below that of
12 pieces weighing less than 5 pounds (4.3 percent versus 12.6 percent).

13 High Own-price Elasticity

14 Reflecting the highly competitive market conditions for expedited
15 delivery services, Priority Mail's own-price elasticity is -0.77, and is
16 statistically significant.⁸³ Only Express Mail's elasticity, at -1.53, is higher.⁸⁴

⁸¹ Docket No. R94-1, N-DP/USPS-T11-26 (Tr. 7A/3100).

⁸² Response of witness Sharkey to NDMS/USPS-T33-30, Table 2 (Tr. 4/1975).

⁸³ USPS-T-8, p. 18.

⁸⁴ *Id.*, p. 35.

1 According to witness O'Hara, a high own-price elasticity indicates low value
2 of service.⁸⁵ This high own-price elasticity, in conjunction with the
3 competitive market situation, poor delivery performance, lack of customer-
4 desired features, and declining market share, points toward a reduced
5 coverage and a rate increase that is lower than average, most especially for
6 heavier, zone-rated Priority Mail.

⁸⁵ Response of witness O'Hara to APMU/USPS-T30-3 (Tr. 2/119).

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VIII. COST CONSIDERATIONS

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In this docket the proposed coverage for Priority Mail was initially computed as 198 percent. Subsequently, however, it was revised to 192 percent, based on certain cost revisions. For reasons explained here, volume-variable costs attributed to Priority Mail appear to be overstated. Should this indeed be the case, costs during FY 1998 will turn out to be lower, and the coverage of volume-variable costs will be higher than projected.

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Correcting for this overstatement of costs would increase the indicated coverage.

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10 PMPC Costs

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As discussed in Section VII of this testimony, during the interim year of this case (FY 1997) the Postal Service signed an innovative contract with Emery to sort and transport all Priority Mail in the Northeast and Florida.

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One obvious implication is that during the Base Year (FY 1996), the Postal Service had absolutely no costs or experience whatsoever under this contract, hence there were no Base Year costs to "roll forward."

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For Interim Year 1997 (when four of the 10 Priority Mail Processing Centers had only operated for between three and 30 days) the cost of the PMPCs was \$36.390 million — identified as "Priority Mail redesign" in Cost

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1 Segment 16, Component 187.⁸⁶ The cost of the PMPCs in **Test Year 1998**,
2 \$265 million, are contained in three cost components: purchased air
3 transportation (Segment 14, Component 142 — \$100 million);⁸⁷ purchased
4 highway transportation (Segment 14, Component 143 — \$100 million); and
5 supplies and services (Segment 16, Component 187 — \$65.423 million).⁸⁸

6 Substantial offsetting transportation and work hour cost reductions
7 should be expected, since Emery will take over many functions previously
8 performed by the Postal Service in the Phase I service area. However, the
9 Postal Service identifies only two cost reductions due to Priority Mail
10 redesign — approximately \$82 million saved in contract air transportation
11 costs and approximately \$45 million saved in **Clerk and Mailhandler**
12 **work hours**, for a total of \$127 million.⁸⁹

⁸⁶ LR-H-10, Exhibit A, p. 4.

⁸⁷ LR-H-10, Exhibit B. Originally, the costs for highway transportation (14/143) and supplies and services (16/187) were attributed entirely to Priority Mail, while the cost for air transportation under the contract was attributed to several classes and subclasses along with the rest of purchased air transportation costs. In response to an error pointed out through UPS discovery, witness Patelunas revised his testimony so that PMPC air transportation costs were distributed solely to Priority Mail, increasing the attributable costs of Priority Mail by \$70 million, and reducing cost coverage for Priority Mail from 198 to 192 percent. *See* second revised response of witness Patelunas to UPS/USPS-T33-36 (9/19/97) (Tr. 13/7293).

⁸⁸ Witness Tayman explained that these unusually round numbers for air and highway transportation costs were estimates given to him by the Priority Mail Redesign program manager between February and April 1997, before the contract with Emery was even awarded (on April 24, 1997) (Tr. 9/4534).

⁸⁹ LR-H-10, Exhibit C.

1 **Surface Transportation Cost Reductions**

2 The Postal Service has attributed significant surface transportation
3 costs for Priority Mail handled by Emery within the Northeast and Florida.
4 However, witness Patelunas does not identify any cost reductions whatsoever
5 in highway transportation due to Priority Mail Redesign in Test Year 1998
6 (Segment 14, Component 143). This is surprising, as approximately 30
7 percent of Priority Mail volume is anticipated to originate and/or destinate
8 within the Phase I area and therefore be processed and transported by
9 Emery before the middle of Test Year 1998.

10 During cross-examination, witnesses Tayman and Patelunas testified
11 that the Postal Service would realize no cost savings for highway
12 transportation because the truck contracts are fixed over a multi-year period,
13 and reduced loads in the Test Year do not translate into cost savings for the
14 Postal Service. Witness Tayman explained that, "just because you take a
15 certain amount of mail volume off of [trucks] that doesn't mean that the cost
16 of that transportation goes down."⁹⁰ This may be true in the test year, but it
17 would not be true in subsequent years.

18 Under the PMPC contract, Emery will operate a surface transportation
19 network dedicated to Priority Mail. The goal is to use surface transportation
20 to move Priority Mail over longer distances. Within the Northeast and

⁹⁰ Tr. 9/4531, ll. 16-18.

Revised 2/11/98

1 Florida, virtually all Priority Mail will be removed from normal Postal
2 Service trucks (subject to sampling under TRACS) as well as from short-haul
3 commercial air transport. Even if the total amount of the Postal Service's
4 normal highway transportation cost remains the same in the test year,
5 removing substantial volume of Priority Mail from trucks subject to TRACS
6 sampling should reduce the proportion of those costs attributed to Priority
7 Mail in the test year (*i.e.*, the distribution key developed by TRACS should
8 reflect the reduction in the volume of Priority Mail), with the attribution to
9 other mail carried on those trucks increased by a corresponding amount.
10 Nevertheless, witness Patelunas stated that he made no adjustments to the
11 distribution of highway costs to account for any change in volume caused by
12 the contract.⁹¹ This means that the Postal Service has overstated total
13 Priority Mail highway transportation costs by an amount which could range
14 as high as 30 percent of highway transportation costs, or \$51 million.

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[DELETION]

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⁹¹ Tr. 13/7322, ll. 13-17. The Postal Service roll-forward procedure apparently has no way to project changes in the distribution key that result from a sea change event such as the PMPC contract.

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[DELETION]

Eagle Network Costs

13 In this docket, the Postal Service has not only distinguished
14 incremental costs conceptually, it has also estimated them.⁹³ Incremental
15 costs are, of course, costs that would no longer exist if a particular class of
16 mail should cease to exist. This exercise cannot escape a fact that has long
17 been obvious — namely, that the Eagle Network exists solely to achieve
18 overnight delivery of Express Mail.⁹⁴ In recognition thereof, the Postal
19 Service proposes to release Priority Mail from the cost burden imposed by the

⁹³ USPS-T-3.

⁹⁴ See Docket No. R94-1, N/DP-T-1, pp. 27-31.

1 Eagle Network. I concur fully, and would strongly advocate that the
2 Commission adopt the treatment of Eagle Network costs proposed by the
3 Postal Service.

4 **Conclusion**

5 The instances of overstatement of Test Year costs by the Postal Service
6 described above offset substantially the \$70 million reduction in Priority Mail
7 costs due to the erroneous distribution of surface transportation costs
8 incurred by the PMPC network. The coverage for Priority Mail under the
9 Postal Service's proposal thus appears to be closer to the 198 percent level
10 originally reported.

1 **IX. CONCLUSIONS AND RECOMMENDATIONS**

2 Priority Mail is a good, highly profitable product for the Postal Service.
3 Priority Mail produces more revenue than almost any other Postal Service
4 product, and has historically made a much larger-than-average contribution
5 to institutional costs. With proper care and nurturing, Priority Mail has the
6 potential for even greater success.

7 Without badly needed changes, however, Priority Mail may not
8 continue to be a success story. Service performance is lagging, and Priority
9 Mail lacks many of the features its competitors offer. And while the effect is
10 masked by a robust overall market for expedited delivery, Priority Mail's
11 share of total revenues in the market, especially in the highly profitable 6- to
12 70-pound weight range, is in chronic decline. There, the Postal Service has
13 virtually priced itself out of the transportation and delivery business for
14 Priority Mail by marking up distance-related costs to subsidize other, zero- or
15 near-zero-margin products. Continuing to sacrifice market share to extract
16 extra contributions to institutional costs makes Priority Mail an easy target
17 for private sector competitors. History has shown that the Postal Service has
18 great difficulty regaining market share, once surrendered.

19 To prevent irreversible losses, two areas must improve. First,
20 competitive rates across the entire weight/zone spectrum must be re-
21 established. Second, the Postal Service must significantly improve Priority

1 Mail's quality of service and performance. With the Commission's help,
2 Priority Mail will realize its potential to be an even bigger and more
3 profitable product for the Postal Service. This outcome would clearly be a
4 win-win situation for both mailers and the Postal Service.

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Appendix A

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**VOLUME AND REVENUE EFFECTS FROM INCREASING
THE MAXIMUM WEIGHT OF FIRST-CLASS MAIL**

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This appendix contains the data cited in Section III in support of the proposal to increase the maximum weight of First-Class Mail. It contains the following three tables:

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Table

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A-1 Priority and First-Class Mail Rates and Volumes By Ounce Increment, 8 to 11 ounces

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A-2 Projected Priority Mail Volume for 12 and 13 Ounce Pieces, Postal Service Proposed Rates

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A-3 Projected Priority Mail Volume for 12 and 13 Ounce Pieces, NDMS Proposed Rates

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Table A-1: Current Rates and Volumes

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At the present time, the maximum weight of First-Class Mail is 11 ounces. Heavier pieces are supposed to be entered as Priority Mail. For pieces that weigh 8 to 11 ounces, the existing rates and 1996 volumes of both Priority Mail and First-Class Mail are shown in Table A-1. The difference between the minimum Priority Mail rate (\$3.00) and the rate for First-Class Mail is shown in column 3. The share (percentage) sent as Priority Mail, by ounce increment, is shown in column 9.

1 **Table A-2: Postal Service Proposed Rates**

2 The minimum Priority Mail rate proposed by the Postal Service (\$3.20)
 3 is shown in Table A-2, column 1. Applying the Postal Service's proposed
 4 rates for First-Class Mail to pieces weighing 12 and 13 ounces results in the
 5 rates shown in column 2. The difference between the minimum rate
 6 proposed for Priority Mail and the extended First-Class rate is shown in
 7 column 3. Column 4 gives Priority Mail volume in FY 1996, by ounce
 8 increment, for 12 and 13 ounces.⁹⁵ These volumes are incremented by the
 9 ratio of total TYBR volume to total Base Year volume (20.00 percent)⁹⁶ to
 10 obtain the TYBR volumes shown in column 5. The volume likely to be sent
 11 as Priority Mail if the proposed weight increase for First-Class Mail is not
 12 adopted, using the alternative procedure discussed in the text, is shown in
 13 column 6. The volumes of Priority Mail and First-Class Mail which are
 14 projected after migration, assuming the proposal to increase First-Class Mail
 15 to 13 ounces is adopted, are shown in columns 7 and 8.

16 For 12-ounce pieces, the difference between the minimum Priority
 17 Mail rate and the First-Class Mail rate is 34 cents. In the Test Year, Priority

⁹⁵ No data are available with respect to 12-ounce pieces inadvertently entered as First-Class Mail.

⁹⁶ 1996 total volume of 937,272,598 (USPS-T33K) to TYBR total volume of 1,123,760,000 (USPS-T33L)= 20 percent increase. Witness Musgrave, USPS-T-8, revised his forecast of TYBR volume to 1,131,156,000, but corresponding revisions were not made to witness Sharkey's testimony. To maintain comparability with witness Sharkey's other data, his unrevised TYBR volume has been used.

1 Mail is projected to have a slightly higher share (28 percent) of 12-ounce
2 volume than it currently has of 11-ounce volume (see Table A-1), where the
3 rate differential is 38 cents. The share of 13-ounce pieces likely to be entered
4 as Priority Mail is considerably higher (77 percent). Both shares were
5 obtained by linear extrapolation of the percentage in column 7 of Table 1
6 according to the rate differential in column 3.

7 To sum up, the total TYAR volume of 12- and 13-ounce Priority Mail
8 without any change in the maximum weight of First-Class Mail is projected
9 to be 156,748,000 using the alternative forecast procedure described in
10 Section IV of the testimony. If the maximum weight for First-Class Mail is
11 increased to 13 ounces, then at the Postal Service's Proposed Rates,
12 77,665,000 pieces are projected to migrate to First-Class Mail, and the
13 Priority Mail volume weighing 12 and 13 ounces is projected at 79,082,000.

14 **Table A-3: NDMS Proposed Rates**

15 Table A-3 is similar to Table A-2, except that it uses the slightly higher
16 minimum rate for Priority Mail used in the NDMS alternate rate proposal.
17 With a minimum rate of \$3.30 (instead of \$3.20) the volume of Priority Mail
18 weighing 12 and 13 ounces declines from 79,082,000 to 53,844,000 pieces,
19 while 100,563,000 pieces migrate to First-Class.

Table A-1

Priority and First-Class Mail Rates and Volumes
By Ounce Increment, 8 to 11 Ounces
1996

Weight (oz.)	Priority Mail Rate (1)	First- Class Rate (2)	Differ- ence (3)	1996 Priority Mail Volume [1] (4)	1996 First- Class Volume [2] (5)	Total Volume (6)	Priority Mail Share (7)
8	3.00	1.93	1.07	9,592	167,416	177,008	5.42%
9	3.00	2.16	0.84	10,741	132,095	142,836	7.52%
10	3.00	2.39	0.61	12,192	97,151	109,343	11.15%
11	3.00	2.62	0.38	17,541	74,310	91,851	19.10%

Sources: [1] Response of witness Sharkey to NDMS/USPS-T33-7 (Tr. 4/1953).
[2] Attachment to NDMS/USPS-T32-47 (data for single piece FCM only).
(Tr. 19B/8972)

Table A-3

Projected Priority Mail Volume
 NDMS Proposed Rates for 12 and 13 Ounce Pieces
 TYAR

Weight (oz.)	Priority Mail Rate (1)	First- Class Rate (2)	Differ- ence (3)	1996 Priority Mail Volume [1 (4)	TYBR Priority Mail Volume (5)	TYAR Priority Mail Volume Before Change * (6)	TYAR Priority Mail Volume After Change * (7)	Migration to First- Class (8)	Priority Mail Share (9)
12	3.30	2.86	0.44	71,844	86,138	82,391	14,026	68,365	17.02%
13	3.30	3.09	0.21	62,797	75,291	72,016	39,818	32,198	55.29%
					161,429	154,407	53,844	100,563	
						Reduction in Priority Mail Revenues (000)	331,856		
						Increase in First-Class Revenues (000)	295,014		
						Net Decrease in Postal Service Revenues (000)	36,842		

* = Using Alternative Procedure

Sources: [1] Response of witness Sharkey to NDMS/USPS-T33-7 (Tr. 4/1953).
 [2] TYAR volume = TYBR volume * percentage rate change
 * effective own-price elasticity of -0.435019

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Appendix B

**PROJECTING TYAR PRIORITY MAIL VOLUME AND REVENUE
BY APPLYING OWN-PRICE ELASTICITY
TO THE RATE PROPOSED FOR EACH CELL**

An alternative procedure for projecting Priority Mail volume and revenue After Rates is described in Section IV of the testimony. This appendix applies the alternative procedure to the Postal Service TYBR volumes and proposed rates in USPS-T-33. It consists of seven tables, in Excel Spreadsheets, as follows:

Table

- B-1 Non-presorted Priority Mail Docket No. R94-1 Remand Rates
- B-2 Postal Service Priority Mail Proposed Rates
- B-3 Percent Change in Non-presorted Priority Mail Docket No. R94-1 Remand Rates to Postal Service Proposed Rates
- B-4 Priority Mail TYBR Volume
- B-5 Total Priority Mail Postal Service Proposed Rate TYAR Volumes Using Alternate Projection Procedure
- B-6 Total Priority Mail Postal Service Proposed Rate TYAR Revenues Using Alternate Projection Procedure
- B-7 Total Priority Mail Postal Service Proposed Rate TYAR Costs (with Contingency) Using Alternate Projection Procedure

1 **Tables B-1 and B-2: Rates**

2 **Current Rates** (Non-presorted Priority Mail Docket No. R94-1
3 Remand Rates) are set out in Table B-1. Table B-2 shows the Postal Service
4 **Proposed Rates** (USPS-T-33, Table 9, p. 32).

5 **Table B-3: Percent Change in Rates**

6 Table B-3 computes for each rate cell the proposed **percentage**
7 **change**, which varies from a low of -0.30 percent (30 pound rate for Zone
8 L,1,2&3) to a high of +16.00 percent (70 pound rate for Zone 7).

9 **Table B-4: TYBR Volume**

10 TYBR volume for Priority Mail is given as 1,123,760,000 pieces, shown
11 in Table B-4.⁹⁷ Using the standard procedure, this volume is distributed to
12 individual rate cells in proportion to the distribution of Base Year volume
13 (USPS-33L).

⁹⁷ Witness Musgrave revised the TYBR volume forecast to 1,131,156 million pieces (USPS-T-8, p. 8, revised 8/18/97), but witness Sharkey did not revise his testimony to incorporate this minor change.

1 **Table B-5: TYAR Volume**

2 **Own price elasticity and lags.** Witness Musgrave estimates the
 3 long-run own-price elasticity of Priority Mail to be -0.770.⁹⁸ In the Test Year,
 4 however, the own-price elasticity has a lagged effect on volume. That is,
 5 Priority Mail rates increase, on average, by 7.35 percent, and the TYAR
 6 volume decreases by 3.20 percent. The result is what I have termed here as
 7 an “effective TY own-price elasticity” of -0.435019.

8 **Projected volume.** Using the alternative procedure proposed in this
 9 testimony, in Table B-5, the TYBR volume in each cell is multiplied by (i)
 10 the own-price elasticity provided by witness Musgrave (-0.77) less a time lag
 11 factor, which provides an **effective TY own-price elasticity of -0.435019,**
 12 and (ii) the percentage rate increase applied to each individual rate proposed
 13 by the Postal Service using the formula:

14
$$\text{TYAR } V_{ij} = \text{TYBR } V_{ij} (1 - 0.435019 * R_{ij})$$

15 where

16 $V = \text{Volume}$

17 $R = \text{percentage change in rate}$

18 $i = \text{weight}$

19 $j = \text{zone}$

⁹⁸ USPS-T-8, p. 18.

1 Results of this alternative procedure are summarized in Table 3 in the
2 text. Using the alternative procedure proposed here, the total volume which
3 can be expected from the Postal Service's proposed rates is 1,088,680,044,
4 rather than the 1,087,829,000 projected by witness Sharkey. That is, the
5 alternative procedure projects **851,044 more pieces** of Priority Mail than
6 the standard procedure used by witness Sharkey. Moreover, the distribution
7 as between rate cells also differs, reflecting the varying percentage change in
8 rates among the different cells.

9 **Table B-6: TYAR Revenues**

10 The revised volume times the proposed rates gives a projected total
11 revenue from Priority Mail, without delivery confirmation and other fees, of
12 \$4,133,916,122, as shown in Table B-6. This is \$469,869 less than witness
13 Sharkey's projected revenue of \$4,134,385,991.⁹⁹ A summary comparison of
14 the standard and alternative procedures is as follows:

⁹⁹ USPS-T-33, Table 6 (Revised 10/6/97).

	TYAR Volume (000)	TYAR Revenue (000)	
1	Standard Procedure	1,087,829	\$ 4,134,386
2	Alternative Procedure	<u>1,088,680</u>	<u>4,133,916</u>
3	Difference	851	(\$ 470)

4 Witness Sharkey projects an average revenue per piece of \$3.80. The
5 small increase of 851,000 parcels, and reduced revenues of \$470,000, result
6 in the same average revenue of \$3.80 (rounded).

7 **Table B-7: TYAR Costs**

8 Table B-7 uses the alternate procedure to project Priority Mail TYAR
9 costs, by multiplying the TYAR unit volumes obtained in Table B-5 times the
10 Postal Service proposed costs with contingency in Table C-2. The alternate
11 total projected TYAR costs with contingency, when deducted from TYAR
12 revenues projected using the alternate procedure (Table B-6), results in
13 alternate projected Priority Mail contribution to institutional costs of
14 \$1,981,829,588 instead of witness Sharkey's projected contribution of
15 \$1,982,084,738.

Nonpresorted Priority Mail
R94-1 Remand Rates

Weight (Pounds)	L1,2&3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
Flat Rate	\$3.00	\$3.00	\$3.00	\$3.00	\$3.00	\$3.00
1	3.00	3.00	3.00	3.00	3.00	3.00
2	3.00	3.00	3.00	3.00	3.00	3.00
3	4.00	4.00	4.00	4.00	4.00	4.00
4	5.00	5.00	5.00	5.00	5.00	5.00
5	6.00	6.00	6.00	6.00	6.00	6.00
6	6.35	6.90	7.10	7.20	7.80	8.00
7	6.65	7.50	8.10	8.40	9.20	9.80
8	6.95	8.00	9.00	9.50	10.40	11.60
9	7.40	8.60	9.80	10.60	11.30	13.00
10	7.80	9.30	10.55	11.40	12.15	14.05
11	8.25	9.90	11.35	12.20	13.00	15.10
12	8.70	10.55	12.10	13.00	13.90	16.15
13	9.10	11.20	12.80	13.80	14.75	17.20
14	9.55	11.85	13.60	14.55	15.60	18.25
15	10.00	12.45	14.35	15.35	16.50	19.30
16	10.40	13.15	15.05	16.15	17.35	20.35
17	10.85	13.75	15.80	16.95	18.20	21.40
18	11.30	14.35	16.50	17.75	19.05	22.45
19	11.70	15.05	17.25	18.55	19.95	23.50
20	12.15	15.65	17.95	19.30	20.80	24.55
21	12.60	16.35	18.70	20.10	21.65	25.60
22	13.00	16.95	19.40	20.90	22.55	26.65
23	13.45	17.55	20.15	21.70	23.40	27.70
24	13.85	18.25	20.85	22.50	24.25	28.75
25	14.30	18.85	21.60	23.25	25.15	29.85
26	14.75	19.50	22.30	24.05	26.00	30.90
27	15.15	20.15	23.00	24.85	26.85	31.95
28	15.60	20.80	23.75	25.65	27.70	33.00
29	16.05	21.40	24.45	26.45	28.60	34.05
30	16.45	22.10	25.20	27.20	29.45	35.10
31	16.90	22.70	25.90	28.00	30.30	36.15
32	17.35	23.40	26.65	28.80	31.20	37.20
33	17.75	24.00	27.35	29.60	32.05	38.25
34	18.20	24.60	28.10	30.40	32.90	39.30
35	18.60	25.30	28.80	31.20	33.75	40.35
36	19.05	25.90	29.55	31.95	34.65	41.40
37	19.50	26.55	30.25	32.75	35.50	42.45
38	19.90	27.20	31.00	33.55	36.35	43.50
39	20.35	27.80	31.70	34.35	37.25	44.55
40	20.80	28.45	32.40	35.15	38.10	45.60
41	21.20	29.10	33.15	35.90	38.95	46.65
42	21.65	29.75	33.85	36.70	39.85	47.70
43	22.10	30.35	34.60	37.50	40.70	48.80
44	22.50	31.05	35.30	38.30	41.55	49.85
45	22.95	31.65	36.05	39.10	42.40	50.90
46	23.35	32.35	36.75	39.85	43.30	51.95
47	23.80	32.95	37.50	40.65	44.15	53.00
48	24.25	33.55	38.20	41.45	45.00	54.05
49	24.65	34.25	38.95	42.25	45.90	55.10
50	25.10	34.85	39.65	43.05	46.75	56.15
51	25.55	35.50	40.35	43.85	47.60	57.20
52	25.95	36.15	41.10	44.60	48.50	58.25
53	26.40	36.80	41.80	45.40	49.35	59.30
54	26.85	37.40	42.55	46.20	50.20	60.35
55	27.25	38.05	43.25	47.00	51.05	61.40
56	27.70	38.70	44.00	47.80	51.95	62.45
57	28.10	39.35	44.70	48.55	52.80	63.50
58	28.55	40.00	45.45	49.35	53.65	64.55
59	29.00	40.60	46.15	50.15	54.55	65.60
60	29.40	41.30	46.90	50.95	55.40	66.65
61	29.85	41.90	47.60	51.75	56.25	67.75
62	30.30	42.50	48.35	52.50	57.10	68.80
63	30.70	43.20	49.05	53.30	58.00	69.85
64	31.15	43.80	49.75	54.10	58.85	70.90
65	31.60	44.45	50.50	54.90	59.70	71.95
66	32.00	45.10	51.20	55.70	60.60	73.00
67	32.45	45.75	51.95	56.50	61.45	74.05
68	32.90	46.35	52.65	57.25	62.30	75.10
69	33.30	47.05	53.40	58.05	63.20	76.15
70	33.75	47.65	54.10	58.85	64.05	77.20

Source: USPS-T-33, Current Rates (Prio 97).

Table B-2

10387

Postal Service Proposed
Priority Mail Rates

Weight (Pounds)	1,1,2&3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
Flat Rate	\$3.20	\$3.20	\$3.20	\$3.20	\$3.20	\$3.20
1	3.20	3.20	3.20	3.20	3.20	3.20
2	3.20	3.20	3.20	3.20	3.20	3.20
3	4.40	4.40	4.40	4.40	4.40	4.40
4	5.50	5.50	5.50	5.50	5.50	5.50
5	6.60	6.60	6.60	6.60	6.60	6.60
6	6.75	6.90	7.75	7.80	8.25	8.75
7	7.05	7.60	8.60	9.10	9.85	11.15
8	7.35	8.30	9.45	10.05	10.85	12.40
9	7.65	9.00	10.25	11.00	11.90	13.65
10	8.10	9.75	11.10	11.90	12.80	14.85
11	8.55	10.45	11.90	12.85	13.85	16.10
12	9.00	11.15	12.75	13.80	14.85	17.35
13	9.45	11.85	13.60	14.70	15.90	18.60
14	9.90	12.60	14.40	15.65	16.90	19.85
15	10.35	13.30	15.25	16.60	17.95	21.05
16	10.80	14.00	15.50	17.50	18.95	22.30
17	11.25	14.75	16.30	18.45	20.00	23.55
18	11.70	15.45	17.10	19.40	21.00	24.80
19	12.15	16.15	17.90	20.30	22.05	26.05
20	12.55	16.85	18.70	21.25	23.05	27.25
21	12.95	17.60	18.75	22.20	24.10	28.50
22	13.35	18.30	19.50	23.10	25.10	29.75
23	13.75	19.00	20.25	24.05	26.15	31.00
24	14.15	19.75	21.05	25.00	27.15	32.25
25	14.55	20.45	21.80	25.90	28.20	33.45
26	14.95	21.15	22.55	26.85	29.20	34.70
27	15.35	21.85	23.35	27.80	30.25	35.95
28	15.75	22.60	24.10	28.70	31.25	37.20
29	16.15	23.30	24.90	29.65	32.30	38.45
30	16.40	24.00	25.65	30.60	33.30	39.65
31	16.85	24.75	26.40	31.55	34.35	40.90
32	17.30	25.45	27.20	32.45	35.35	42.15
33	17.75	26.15	27.95	33.40	36.40	43.40
34	18.25	26.85	28.70	34.35	37.40	44.65
35	18.70	27.60	29.50	35.25	38.40	45.85
36	19.15	28.30	30.25	36.20	39.45	47.10
37	19.60	29.00	31.05	37.15	40.45	48.35
38	20.05	29.75	31.80	38.05	41.50	49.60
39	20.55	30.45	32.55	39.00	42.50	50.85
40	21.00	31.15	33.35	39.95	43.55	52.10
41	21.45	31.85	34.10	40.85	44.55	53.30
42	21.90	32.60	34.85	41.80	45.60	54.55
43	22.35	33.30	35.65	42.75	46.60	55.80
44	22.85	34.00	36.40	43.65	47.65	57.05
45	23.30	34.75	37.20	44.60	48.65	58.30
46	23.75	35.45	37.95	45.55	49.70	59.50
47	24.20	36.15	38.70	46.45	50.70	60.75
48	24.65	36.85	39.50	47.40	51.75	62.00
49	25.15	37.60	40.25	48.35	52.75	63.25
50	25.60	38.30	41.00	49.25	53.80	64.50
51	26.05	39.00	41.80	50.20	54.80	65.70
52	26.50	39.75	42.55	51.15	55.85	66.95
53	26.95	40.45	43.35	52.05	56.85	68.20
54	27.45	41.15	44.10	53.00	57.90	69.45
55	27.90	41.85	44.85	53.95	58.90	70.70
56	28.35	42.60	45.65	54.85	59.95	71.90
57	28.80	43.30	46.40	55.80	60.95	73.15
58	29.25	44.00	47.15	56.75	62.00	74.40
59	29.75	44.75	47.95	57.65	63.00	75.65
60	30.20	45.45	48.70	58.60	64.05	76.90
61	30.65	46.15	49.50	59.55	65.05	78.10
62	31.10	46.85	50.25	60.45	66.10	79.35
63	31.55	47.60	51.00	61.40	67.10	80.60
64	32.05	48.30	51.80	62.35	68.15	81.85
65	32.50	49.00	52.55	63.25	69.15	83.10
66	32.95	49.75	53.30	64.20	70.20	84.30
67	33.40	50.45	54.10	65.15	71.20	85.55
68	33.85	51.15	54.85	66.05	72.25	86.80
69	34.35	51.85	55.65	67.00	73.25	88.05
70	34.80	52.60	56.40	67.95	74.30	89.30

Source: USPS-T-33, Table 9, p. 32.

Table B-3

10388

Priority Mail
Percent Change, Nonpresorted R94-1 Remand Rates
to Postal Service Proposed Rates

Weight (Pounds)	L1,2&3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
Flat Rate	6.67%	6.67%	6.67%	6.67%	6.67%	6.67%
1	6.67%	6.67%	6.67%	6.67%	6.67%	6.67%
2	6.67%	6.67%	6.67%	6.67%	6.67%	6.67%
3	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
4	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
5	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
6	6.30%	0.00%	9.15%	8.33%	5.77%	9.38%
7	6.02%	1.33%	6.17%	8.33%	7.07%	13.78%
8	5.76%	3.75%	5.00%	5.79%	4.33%	6.90%
9	3.38%	4.65%	4.59%	3.77%	5.31%	5.00%
10	3.85%	4.84%	5.21%	4.39%	5.35%	5.69%
11	3.64%	5.56%	4.85%	5.33%	6.54%	6.62%
12	3.45%	5.69%	5.37%	6.15%	6.83%	7.43%
13	3.85%	5.80%	6.25%	6.52%	7.80%	8.14%
14	3.66%	6.33%	5.88%	7.56%	8.33%	8.77%
15	3.50%	6.83%	6.27%	8.14%	8.79%	9.07%
16	3.85%	6.46%	2.99%	8.36%	9.22%	9.58%
17	3.69%	7.27%	3.16%	8.85%	9.89%	10.05%
18	3.54%	7.67%	3.64%	9.30%	10.24%	10.47%
19	3.85%	7.31%	3.77%	9.43%	10.53%	10.85%
20	3.29%	7.67%	4.18%	10.10%	10.82%	11.00%
21	2.78%	7.65%	0.27%	10.45%	11.32%	11.33%
22	2.69%	7.96%	0.52%	10.53%	11.31%	11.63%
23	2.23%	8.26%	0.50%	10.83%	11.75%	11.91%
24	2.17%	8.22%	0.96%	11.11%	11.96%	12.17%
25	1.75%	8.49%	0.93%	11.40%	12.13%	12.06%
26	1.36%	8.46%	1.12%	11.64%	12.31%	12.30%
27	1.32%	8.44%	1.52%	11.87%	12.66%	12.52%
28	0.96%	8.65%	1.47%	11.89%	12.82%	12.73%
29	0.62%	8.88%	1.84%	12.10%	12.94%	12.92%
30	-0.30%	8.60%	1.79%	12.50%	13.07%	12.96%
31	-0.30%	9.03%	1.93%	12.68%	13.37%	13.14%
32	-0.29%	8.76%	2.06%	12.67%	13.30%	13.31%
33	0.00%	8.96%	2.19%	12.84%	13.57%	13.46%
34	0.27%	9.15%	2.14%	12.99%	13.68%	13.61%
35	0.54%	9.09%	2.43%	12.98%	13.78%	13.63%
36	0.52%	9.27%	2.37%	13.30%	13.85%	13.77%
37	0.51%	9.23%	2.64%	13.44%	13.94%	13.90%
38	0.75%	9.38%	2.58%	13.41%	14.17%	14.02%
39	0.98%	9.53%	2.68%	13.54%	14.09%	14.14%
40	0.96%	9.49%	2.93%	13.66%	14.30%	14.25%
41	1.18%	9.45%	2.87%	13.79%	14.38%	14.26%
42	1.15%	9.58%	2.95%	13.90%	14.43%	14.36%
43	1.13%	9.72%	3.03%	14.00%	14.50%	14.34%
44	1.56%	9.50%	3.12%	13.97%	14.68%	14.44%
45	1.53%	9.79%	3.19%	14.07%	14.74%	14.54%
46	1.71%	9.58%	3.27%	14.30%	14.78%	14.53%
47	1.68%	9.71%	3.20%	14.27%	14.84%	14.62%
48	1.65%	9.84%	3.40%	14.35%	15.00%	14.71%
49	2.03%	9.78%	3.34%	14.44%	14.92%	14.79%
50	1.99%	9.90%	3.40%	14.40%	15.08%	14.87%
51	1.96%	9.86%	3.59%	14.48%	15.13%	14.86%
52	2.12%	9.96%	3.53%	14.69%	15.15%	14.94%
53	2.08%	9.92%	3.71%	14.65%	15.20%	15.01%
54	2.23%	10.03%	3.64%	14.72%	15.34%	15.08%
55	2.39%	9.99%	3.70%	14.79%	15.38%	15.15%
56	2.35%	10.08%	3.75%	14.75%	15.40%	15.13%
57	2.49%	10.04%	3.80%	14.93%	15.44%	15.20%
58	2.45%	10.00%	3.74%	14.99%	15.56%	15.26%
59	2.59%	10.22%	3.90%	14.96%	15.49%	15.32%
60	2.72%	10.05%	3.84%	15.01%	15.61%	15.38%
61	2.68%	10.14%	3.99%	15.07%	15.64%	15.28%
62	2.64%	10.24%	3.93%	15.14%	15.76%	15.33%
63	2.77%	10.19%	3.98%	15.20%	15.69%	15.39%
64	2.89%	10.27%	4.12%	15.25%	15.80%	15.44%
65	2.85%	10.24%	4.06%	15.21%	15.83%	15.50%
66	2.97%	10.31%	4.10%	15.26%	15.84%	15.48%
67	2.93%	10.27%	4.14%	15.31%	15.87%	15.53%
68	2.89%	10.36%	4.18%	15.37%	15.97%	15.58%
69	3.15%	10.20%	4.21%	15.42%	15.90%	15.63%
70	3.11%	10.39%	4.25%	15.46%	16.00%	15.67%

Source: Table B-2 less Table B-1/Table B-1.

Table B-4

10389

Priority Mail
TYBR Volume

Weight: (Pounds)	L.1.2&3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8	Total
Flat Rate	42,414,248	12,088,145	13,624,208	8,819,148	6,880,905	11,302,076	95,128,730
1	230,706,977	50,447,825	51,603,906	29,292,635	20,796,421	41,687,736	424,535,499
2	189,392,575	50,454,437	50,374,095	27,926,964	20,543,588	40,580,454	379,272,113
3	49,748,518	15,391,555	15,504,434	9,636,782	6,706,829	14,119,736	111,107,852
4	19,210,169	5,626,935	6,619,468	4,159,506	2,820,210	6,356,970	44,793,259
5	9,288,304	2,979,740	3,397,358	2,196,842	1,577,664	3,341,933	22,781,843
6	5,202,983	1,700,914	1,973,341	1,178,042	1,000,532	2,097,582	13,153,393
7	3,085,788	1,171,383	1,162,857	843,783	669,255	1,382,661	8,315,726
8	1,986,508	717,618	727,673	537,530	471,269	1,050,496	5,491,095
9	1,337,388	515,054	668,786	309,057	292,512	700,979	3,823,775
10	951,529	397,941	471,421	243,907	256,202	541,193	2,862,194
11	650,126	252,400	311,151	228,058	192,776	496,770	2,131,280
12	378,656	164,261	316,801	166,700	151,730	407,835	1,585,983
13	379,267	112,205	231,034	137,007	83,999	315,127	1,258,639
14	267,923	115,324	243,162	105,083	97,407	270,244	1,099,143
15	231,799	71,897	137,395	78,780	63,441	186,914	770,227
16	253,712	53,421	62,247	65,071	63,071	202,337	699,859
17	188,071	82,363	66,029	42,578	54,788	181,390	615,218
18	132,723	66,596	74,510	38,300	46,947	172,623	531,700
19	103,731	29,872	75,814	36,657	51,311	143,214	440,598
20	103,140	38,500	56,595	24,528	37,665	109,829	370,258
21	83,202	24,588	47,676	17,145	23,083	121,599	317,293
22	97,541	29,688	33,615	19,510	18,438	79,074	277,865
23	150,305	28,203	21,213	15,701	26,955	74,964	317,340
24	67,580	12,778	27,056	18,813	19,388	71,134	216,749
25	67,987	26,290	15,704	26,047	11,103	48,297	195,428
26	95,184	15,752	18,578	7,763	12,624	36,326	186,227
27	38,946	14,415	28,306	11,505	13,912	32,155	139,239
28	42,720	6,670	12,171	7,867	20,387	29,253	119,069
29	32,534	3,468	10,561	3,145	8,792	22,786	81,286
30	36,979	14,110	8,480	4,011	13,369	19,275	96,225
31	28,494	40,020	9,596	14,182	17,145	20,339	129,775
32	27,615	15,452	16,519	23,707	23,707	5,879	110,264
33	28,450	9,176	30,165	8,389	4,277	27,217	107,673
34	23,801	4,467	3,024	7,898	7,719	15,760	62,668
35	31,754	2,121	11,888	7,670	5,450	15,718	74,601
36	10,625	13,480	4,402	7,105	4,746	17,352	57,709
37	6,627	8,186	1,467	4,994	1,896	16,174	39,344
38	24,981	7,825	3,863	2,557	3,556	12,825	55,607
39	18,062	2,602	4,244	4,587	2,346	14,883	46,724
40	13,001	2,550	10,412	3,189	2,394	14,604	46,150
41	10,633	5,540	230	552	6,560	12,554	36,070
42	6,652	4,198	12,373	1,983	5,562	8,125	38,893
43	1,895	494	2,208	4,699	288	3,520	13,104
44	9,942	1,670	3,178	1,305	2,557	4,206	22,859
45	1,183	1,540	726	2,750	1,420	4,994	12,613
46	2,148	3,692	985	1,994	1,196	8,095	18,110
47	1,855	691	210	1,555	999	3,106	8,416
48	3,428	195	1,675	1,532	1,243	2,633	10,706
49	3,174	438	824	1,222	1,289	6,584	13,530
50	5,454	326	278	754	423	9,219	16,455
51	7,642	2,941	0	503	0	1,726	12,813
52	2,939	1,174	1,179	1,059	7,365	9,457	23,173
53	2,488	395	29	3,508	986	1,048	8,454
54	1,168	0	3,039	895	0	22	5,124
55	563	511	0	188	852	4,797	6,910
56	1,215	1,234	665	203	687	2,076	6,081
57	3,142	0	0	0	282	2,884	6,308
58	541	0	289	2,129	265	4,563	7,787
59	460	549	0	1,072	2,110	1,631	5,822
60	128	51	445	1,233	551	993	3,400
61	2,668	0	0	0	473	312	3,453
62	3,188	0	29	0	47	2,024	5,287
63	1,477	0	563	0	722	883	3,645
64	454	0	834	0	0	217	1,504
65	285	0	29	23	0	247	583
66	547	0	0	0	0	551	1,098
67	87	7,164	173	0	113	837	8,374
68	778	0	0	0	0	662	1,440
69	1,346	6,341	0	217	0	253	8,157
70	4,039	0	65	106	0	0	4,209
	557,022,042	142,799,368	148,051,251	86,312,227	63,117,972	126,457,141	1,123,760,000

Source: USPS-33-L

Table B-5

Total Priority Mail Postal Service
Proposed Rate TYAR Volumes Using
Alternate Projection Procedure

Weight: (Pounds)	L.1,2&3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8	Total
Flat Rate	41,184,182	11,737,573	13,229,089	8,563,381	6,681,350	10,974,301	92,369,877
1	224,016,182	48,984,774	50,107,327	28,443,111	20,193,299	40,478,739	412,223,432
2	183,899,950	48,991,194	48,913,182	27,117,047	19,947,798	39,403,570	368,272,741
3	47,584,363	14,721,993	14,829,962	9,217,564	6,415,069	13,505,500	106,274,449
4	18,374,490	5,382,153	6,331,508	3,978,560	2,897,526	6,080,430	42,844,667
5	8,884,245	2,850,116	3,249,567	2,101,275	1,509,033	3,196,553	21,790,789
6	5,060,407	1,700,914	1,894,752	1,135,336	975,421	2,012,037	12,778,865
7	3,005,044	1,164,588	1,131,631	813,194	648,686	1,299,803	8,062,946
8	1,936,772	705,911	711,846	523,992	462,398	1,018,980	5,359,899
9	1,317,733	504,632	655,427	303,984	285,755	685,732	3,753,263
10	935,608	389,565	460,730	239,253	250,240	527,788	2,803,185
11	639,841	246,300	304,592	222,772	187,293	482,458	2,083,256
12	372,976	160,197	309,398	162,237	147,219	394,652	1,546,679
13	372,921	109,372	224,752	133,120	81,150	303,969	1,225,285
14	263,651	112,149	236,940	101,627	93,876	259,937	1,068,180
15	228,270	69,762	133,646	75,989	61,016	179,542	748,225
16	249,467	51,919	61,438	62,705	60,540	193,902	679,971
17	185,055	79,757	65,120	40,939	52,431	173,462	596,763
18	130,679	64,375	73,331	36,752	44,857	164,762	514,757
19	101,995	28,922	74,571	35,152	48,961	136,454	426,056
20	101,663	37,215	55,567	23,450	35,892	104,575	358,363
21	82,196	23,770	47,620	16,366	21,947	115,607	307,506
22	96,399	28,659	33,540	18,617	17,531	75,072	269,817
23	148,846	27,189	21,167	14,962	25,577	71,079	308,820
24	66,943	12,321	26,943	17,904	18,380	67,367	209,857
25	67,470	25,319	15,641	24,756	10,517	45,763	189,466
26	94,622	15,172	18,487	7,370	11,948	34,383	181,983
27	38,723	13,886	28,118	10,911	13,145	30,404	135,187
28	42,541	6,419	12,093	7,460	19,250	27,634	115,398
29	32,446	3,334	10,477	2,979	8,297	21,505	79,039
30	37,028	13,583	8,415	3,793	12,609	18,188	93,615
31	28,531	38,447	9,515	13,400	16,148	19,176	125,217
32	27,650	14,863	16,370	22,400	5,539	19,871	106,693
33	28,450	8,819	29,877	7,920	4,025	25,623	104,713
34	23,772	4,290	2,996	7,451	7,259	14,826	60,595
35	31,679	2,037	11,762	7,237	5,123	14,786	72,626
36	10,601	12,936	4,356	6,694	4,460	16,313	55,360
37	6,613	7,857	1,450	4,702	1,781	15,196	37,599
38	24,899	7,506	3,820	2,407	3,337	12,043	54,011
39	17,984	2,494	4,195	4,317	2,202	13,967	45,159
40	12,947	2,445	10,279	3,000	2,245	13,698	44,613
41	10,579	5,312	228	519	6,150	11,775	34,563
42	6,619	4,023	12,214	1,863	5,213	7,617	37,549
43	1,886	473	2,179	4,413	270	3,301	12,521
44	9,875	1,601	3,135	1,226	2,394	3,942	22,172
45	1,176	1,474	716	2,581	1,329	4,678	11,954
46	2,132	3,538	971	1,870	1,119	7,583	17,213
47	1,841	661	208	1,459	935	2,908	8,012
48	3,404	186	1,650	1,437	1,162	2,464	10,303
49	3,146	419	812	1,145	1,205	6,160	12,887
50	5,407	312	274	707	395	8,623	15,718
51	7,577	2,815	0	471	0	1,615	12,478
52	2,912	1,123	1,161	991	6,880	8,843	21,910
53	2,466	378	28	3,285	921	979	8,057
54	1,157	0	2,991	838	0	20	5,006
55	557	489	0	176	795	4,481	6,497
56	1,203	1,180	654	190	641	1,940	5,808
57	3,108	0	0	0	263	2,693	6,064
58	536	0	284	1,991	247	4,260	7,317
59	454	524	0	1,002	1,968	1,523	5,471
60	126	48	438	1,153	514	926	3,204
61	2,637	0	0	0	441	291	3,369
62	3,151	0	28	0	44	1,889	5,112
63	1,460	0	553	0	673	824	3,509
64	448	0	819	0	0	202	1,469
65	282	0	28	21	0	230	561
66	540	0	0	0	0	514	1,054
67	86	6,844	170	0	105	781	7,986
68	769	0	0	0	0	617	1,385
69	1,328	6,060	0	202	0	235	7,825
70	3,984	0	64	99	0	0	4,147
	539,846,676	138,402,191	143,401,100	83,563,725	61,124,792	122,341,559	1,088,680,044

Source: Table B-4 times percent change times *effective TY own-price elasticity (-0.432019) using formula:
 $TYAR V_u = TYBR V_u (1 - 0.435019 * R_u)$

Table B-6

10391

Total Priority Mail Postal Service
Proposed Rate TYAR Revenues Using
Alternate Projection Procedure

Weight: (Pounds)	<u>L.1,2&3</u>	<u>Zone 4</u>	<u>Zone 5</u>	<u>Zone 6</u>	<u>Zone 7</u>	<u>Zone 8</u>	<u>Total</u>
Flat Rate	131,789,381	37,560,235	42,333,083	27,402,820	21,380,321	35,117,765	295,583,605
1	716,851,783	156,751,277	160,343,447	91,017,956	64,618,555	129,531,964	1,319,114,983
2	588,479,840	156,771,822	156,522,183	86,774,551	63,832,954	126,091,423	1,178,472,772
3	209,371,195	64,776,768	65,251,831	40,557,280	28,226,303	59,424,201	467,607,578
4	101,059,698	29,601,840	34,823,297	21,882,079	14,836,391	33,442,366	235,645,670
5	58,636,018	18,810,766	21,447,140	13,868,416	9,959,618	21,097,250	143,819,208
6	34,157,746	11,736,304	14,684,326	8,855,618	8,047,223	17,605,320	95,086,538
7	21,185,558	8,850,873	9,732,023	7,400,068	6,389,553	14,492,806	68,050,882
8	14,235,273	5,859,062	6,726,943	5,266,122	5,017,022	12,635,350	49,739,772
9	10,080,656	4,541,690	6,718,126	3,343,824	3,400,487	9,360,237	37,445,020
10	7,578,428	3,798,260	5,114,106	2,847,111	3,203,071	7,837,654	30,378,630
11	5,470,643	2,573,833	3,624,641	2,862,618	2,594,011	7,767,575	24,893,320
12	3,356,786	1,786,200	3,944,820	2,238,872	2,186,206	6,847,211	20,360,095
13	3,524,108	1,296,062	3,056,629	1,956,867	1,290,290	5,653,817	16,777,773
14	2,610,145	1,413,072	3,411,930	1,590,468	1,586,506	5,159,750	15,771,871
15	2,362,591	927,833	2,038,109	1,261,425	1,095,231	3,779,353	11,464,541
16	2,694,241	726,864	952,285	1,097,338	1,147,240	4,324,018	10,941,986
17	2,081,864	1,176,415	1,061,453	755,326	1,048,617	4,085,033	10,208,708
18	1,528,949	994,599	1,253,967	712,981	941,992	4,086,109	9,518,598
19	1,239,242	467,095	1,334,821	713,594	1,079,591	3,554,627	8,388,970
20	1,275,875	627,080	1,039,099	498,306	827,322	2,849,666	7,117,349
21	1,064,440	418,357	892,882	363,321	528,918	3,294,795	6,562,713
22	1,286,921	524,460	654,023	430,049	440,024	2,233,401	5,568,879
23	2,046,639	516,592	428,638	359,825	668,829	2,203,443	6,223,966
24	947,248	243,333	567,159	447,589	499,007	2,172,573	4,876,909
25	981,687	517,769	340,969	641,180	296,589	1,530,764	4,308,958
26	1,414,605	320,896	416,886	197,874	348,890	1,193,081	3,892,233
27	594,392	303,405	656,561	303,324	397,651	1,093,024	3,348,355
28	670,026	145,075	291,433	214,115	601,576	1,027,977	2,950,202
29	524,000	77,687	260,876	88,339	267,998	826,870	2,045,769
30	607,254	325,982	215,834	116,056	419,868	721,173	2,406,167
31	480,743	951,571	251,206	422,766	554,672	784,298	3,445,255
32	478,344	378,272	445,270	726,877	195,813	837,555	3,062,131
33	504,982	230,605	835,053	264,541	146,504	1,112,020	3,093,706
34	433,842	115,174	85,987	255,951	271,497	661,994	1,824,446
35	592,406	56,225	346,989	255,097	196,742	677,954	2,125,413
36	203,002	366,096	131,775	242,334	175,950	768,324	1,887,480
37	129,606	227,864	45,034	174,673	72,031	734,730	1,383,938
38	499,221	223,304	121,465	91,602	138,476	597,322	1,671,390
39	369,579	75,935	136,536	168,368	93,602	710,227	1,554,248
40	271,881	76,147	342,801	119,850	97,751	713,684	1,622,115
41	226,917	169,187	7,761	21,192	273,975	627,633	1,326,664
42	144,947	131,156	425,651	77,890	237,725	415,508	1,432,877
43	42,148	15,745	77,668	188,655	12,572	184,171	520,959
44	225,633	54,437	114,123	53,502	114,077	224,874	786,645
45	27,389	51,219	26,648	115,128	64,636	272,737	557,756
46	50,637	125,415	36,853	85,188	55,602	451,214	804,909
47	44,555	23,912	8,031	67,760	47,393	176,664	368,314
48	83,899	6,864	65,176	68,097	60,145	152,788	436,969
49	79,122	15,756	32,665	55,361	63,577	389,631	636,112
50	138,410	11,966	11,231	34,830	21,274	556,167	773,878
51	197,374	109,797	0	23,654	0	106,091	436,917
52	77,167	44,652	49,396	50,692	384,223	592,022	1,198,152
53	66,449	15,296	1,231	170,975	52,331	66,790	373,072
54	31,754	0	131,892	44,401	0	1,405	209,454
55	15,546	20,468	0	9,474	46,813	316,773	409,074
56	34,096	50,277	29,875	10,436	38,423	139,470	302,579
57	89,520	0	0	0	16,006	196,999	302,525
58	15,666	0	13,392	112,961	15,299	316,964	474,283
59	13,518	23,458	0	57,776	123,982	115,186	333,920
60	3,806	2,196	21,316	67,542	32,894	71,219	198,972
61	80,832	0	0	0	28,663	22,718	132,213
62	98,011	0	1,426	0	2,889	149,857	252,182
63	46,049	0	28,218	0	45,129	66,408	185,804
64	14,354	0	42,412	0	0	16,534	73,300
65	9,152	0	1,490	1,350	0	19,113	31,105
66	17,804	0	0	0	0	43,321	61,125
67	2,856	345,281	9,204	0	7,496	66,794	431,630
68	26,017	0	0	0	0	53,541	79,558
69	45,608	314,204	0	13,536	0	20,733	394,081
70	138,643	0	3,596	6,710	0	0	148,949
	1,935,758,722	518,673,987	554,020,888	330,124,481	250,866,017	544,472,027	4,133,916,122

Source: Table B-5 (TYAR volume) times Table B-2 (USPS Priority Mail Proposed Rates)

Table B-7

Total Priority Mail Postal Service
Proposed Rate TYAR Costs (with Contingency)
Using Alternate Projection Procedure

Weight: (Pounds)	L.1.2&3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8	Total
Flat Rate	59,029,862	18,450,487	21,393,709	14,593,892	11,744,882	20,819,214	146,032,046
1	321,085,519	76,999,980	81,032,158	48,473,340	35,497,002	76,791,725	639,879,724
2	302,313,417	94,117,321	98,394,606	59,270,140	45,740,195	101,324,288	701,159,967
3	88,244,686	33,423,299	35,681,820	24,585,173	18,142,641	43,836,302	243,913,921
4	37,944,734	14,098,482	17,731,443	12,527,307	9,072,488	23,836,336	115,210,789
5	20,217,561	8,461,076	10,382,216	7,628,046	5,882,810	14,686,672	67,258,381
6	12,581,447	5,643,407	6,801,021	4,668,151	4,324,560	10,601,211	44,619,797
7	8,104,121	4,270,614	4,508,241	3,735,154	3,223,102	7,725,065	31,566,297
8	5,631,023	2,835,114	3,116,668	2,659,094	2,544,948	6,743,220	23,530,067
9	4,108,711	2,202,941	3,128,180	1,688,989	1,725,657	5,000,342	17,854,819
10	3,114,289	1,836,655	2,380,677	1,444,531	1,645,094	4,204,541	14,625,767
11	2,264,520	1,247,218	1,694,025	1,452,286	1,331,505	4,168,777	12,158,331
12	1,398,578	867,150	1,842,795	1,135,767	1,125,393	3,676,208	10,045,891
13	1,476,905	630,225	1,427,293	896,026	683,787	3,036,473	8,230,688
14	1,099,676	685,383	1,598,149	809,324	818,093	2,771,913	7,782,539
15	1,000,173	450,702	954,157	641,742	564,379	2,035,671	5,646,823
16	1,145,584	353,555	462,863	559,745	592,380	2,329,252	5,443,379
17	888,765	570,977	516,290	385,160	541,087	2,200,692	5,102,970
18	655,136	483,340	610,318	363,460	486,926	2,201,430	4,800,610
19	532,812	227,252	650,050	364,570	557,680	1,915,214	4,247,577
20	552,487	305,410	506,304	254,490	428,033	1,538,292	3,585,017
21	464,003	203,372	452,683	185,492	273,469	1,778,532	3,357,552
22	564,477	255,206	332,060	219,969	227,825	1,205,562	2,805,100
23	902,939	251,610	217,917	183,984	346,073	1,189,365	3,091,887
24	420,192	118,319	288,009	228,783	258,527	1,172,678	2,486,507
25	437,705	251,985	173,360	328,266	153,564	827,471	2,172,353
26	633,781	156,301	212,201	101,270	180,852	644,887	1,929,293
27	267,519	147,896	333,841	155,187	206,007	590,764	1,701,214
28	302,859	70,612	148,343	109,703	311,982	555,573	1,499,072
29	237,820	37,841	132,655	45,245	138,908	446,858	1,039,327
30	279,202	158,895	109,861	59,422	217,836	390,208	1,215,425
31	221,140	463,199	127,987	216,395	287,620	424,325	1,740,666
32	220,136	184,258	226,645	372,523	101,629	453,100	1,558,291
33	232,494	112,401	425,427	135,534	75,998	601,533	1,583,387
34	199,275	56,172	43,844	131,094	140,956	358,070	929,412
35	272,231	27,388	176,768	130,805	102,226	367,077	1,076,495
36	93,327	178,437	67,184	124,223	91,376	415,967	970,515
37	59,608	111,125	22,941	89,514	37,436	397,744	718,368
38	229,693	108,777	61,923	46,991	71,933	323,330	842,648
39	169,694	37,010	69,657	86,347	48,658	384,414	795,780
40	124,887	37,133	174,747	61,447	50,791	386,255	835,260
41	104,274	82,546	3,959	10,876	142,450	339,976	684,080
42	66,632	63,923	217,277	39,961	123,546	225,052	736,391
43	19,383	7,677	39,616	96,764	6,538	99,744	269,721
44	103,570	26,558	58,247	27,466	59,298	121,777	396,916
45	12,577	24,963	13,591	59,087	33,618	147,685	291,521
46	23,260	61,153	18,807	43,709	28,908	244,515	420,353
47	20,474	11,664	4,101	34,796	24,654	95,726	191,415
48	38,566	3,350	33,258	34,960	31,275	82,782	224,190
49	36,310	7,682	16,678	28,414	33,077	211,087	333,249
50	63,540	5,837	5,737	17,890	11,064	301,286	405,354
51	90,638	53,579	0	12,147	0	57,511	213,875
52	35,448	21,771	25,231	26,025	199,849	320,899	629,223
53	30,534	7,461	628	87,843	27,233	36,200	189,898
54	14,569	0	67,360	22,807	0	762	105,498
55	7,135	9,991	0	4,865	24,364	171,661	218,016
56	15,654	24,522	15,256	5,363	19,991	75,626	156,412
57	41,111	0	0	0	8,331	106,811	156,254
58	7,197	0	6,845	58,022	7,960	171,841	251,866
59	6,201	11,441	0	29,696	64,541	62,443	174,321
60	1,746	1,071	10,894	34,707	17,118	38,605	104,142
61	37,103	0	0	0	14,922	12,321	64,346
62	45,000	0	729	0	1,503	81,270	128,503
63	21,149	0	14,426	0	23,497	36,012	95,083
64	6,584	0	21,671	0	0	8,965	37,219
65	4,199	0	762	694	0	10,363	16,018
66	8,170	0	0	0	0	23,501	31,671
67	1,311	168,489	4,704	0	3,903	36,231	214,639
68	11,946	0	0	0	0	29,040	40,986
69	20,916	153,417	0	6,959	0	11,244	192,537
70	63,600	0	1,839	3,449	0	0	68,887
	880,681,766	271,875,621	299,192,651	191,935,081	150,883,927	357,517,486	2,152,086,533

Source: Table B-5 (TYAR volume) times Table C-2 (Unit Costs w/ Contingency)

1 **Appendix C**

2 **NDMS PROPOSED RATES**

3 This appendix develops the NDMS proposed Priority Mail rates in
4 Section VI of the testimony (Table 4) through the following eleven tables.

5 **Table**

6 C-1 Distance-Related TYBR Transportation Unit Costs Including 1
7 Percent Contingency

8 C-2 Total TYBR Unit Costs Including 1 Percent Contingency

9 C-3 Total TYBR Unit Costs less Distance-Related Transportation
10 Costs, Including 1 Percent Contingency

11 C-4 Average TYBR Costs for 2-Pounds and Under Rate Including 1
12 Percent Contingency

13 C-5 Implicit Coverage Factor Times Applicable Unit Costs

14 C-6 Initial Cost-Based Rates with 100 Percent Passthrough for
15 Distance-related Costs

16 C-7 NDMS Proposed Rates

17 C-8 Percentage Change, NDMS Proposed Rates from Docket No.
18 R94-1 Remand Rates

19 C-9 Projected TYAR Volumes, NDMS Proposed Rates

20 C-10 Projected TYAR Revenues, NDMS Proposed Rates

21
22 C-11 Projected TYAR Costs Including 1 Percent Contingency, NDMS
23 Proposed Rates

1 Tables C-1 through C-4 develop the unit costs on which the rates are
 2 based. Tables C-5 through C-7 develop proposed rates, and Tables C-8
 3 through C-11 develop supporting data showing the effect of proposed rates.

4 **Table C-1: Distance-related Transportation Costs**

5 Total air distance-related costs of \$194,296,000¹⁰⁰ plus \$31,553,000¹⁰¹
 6 amounts to \$225,849,000. This total is distributed to individual zones per
 7 the distribution in USPS-33O, which was not revised. The amount
 8 distributed to each zone is divided by total Postage Pounds for that zone¹⁰² to
 9 obtain an air distance-related TYBR unit cost per pound per zone.

10 Surface distance-related transportation unit costs for Zone L, 1, 2 & 3
 11 and Zone 4 **only** are developed using the same methodology.

12 Total transportation distance-related unit cost is the sum of air
 13 distance-related TYBR unit cost plus surface distance-related TYBR unit
 14 cost. For Zone 5 through Zone 8, **only the distance-related air TYBR**
 15 **unit cost is used.** The result is shown below.

¹⁰⁰ USPS-33O, column 3.

¹⁰¹ USPS-33Q (revised 10/6/97).

¹⁰² USPS-33O, column 7.

1 Distance-Related Transportation Unit Costs

	Zone	Surface	Air	Total
2				
3	L, 1, 2&3	\$ 0.12676	\$ 0.00110	\$ 0.13
4	4	0.10044	0.03866	0.14
5	5	0.00	0.10173	0.10
6	6	0.00	0.16308	0.16
7	7	0.00	0.22345	0.22
8	8	0.00	0.36074	0.36

9 Table C-2: Total TYBR Unit Cost

10 Total TYBR unit cost consists of the following four components:

- 11 • Distance-related transportation costs (Table C-1);
- 12 • Non-distance-related transportation costs;
- 13 • Weight-related costs of 2 cents per pound; and
- 14 • Per-piece costs of \$1.21.

15 **Non-distance-related transportation cost.** Surface TYBR non-
 16 distance unit cost is \$0.051452 per pound, derived by dividing surface non-
 17 distance-related total costs of \$121,921,000¹⁰³ by TYBR total postage pounds,
 18 2,369,626,656.¹⁰⁴ This cost applies to all zones.

¹⁰³ USPS-33Q.

¹⁰⁴ USPS-33O, (revised 10/6/97).

1 **Air terminal handling costs of \$278,237,000¹⁰⁵ are divided by TYBR**
 2 **total postage pounds and distributed in proportion to the Priority Mail**
 3 **postage pounds that travel by air to each zone to obtain the revised**
 4 **individual zone air terminal handling (non-distance-related) costs.**

5 **Total transportation non-distance-related unit cost is the sum of the**
 6 **surface and air unit costs described above and shown in the table below.**

7 **NON-DISTANCE-RELATED TRANSPORTATION COSTS**

	Zone	Surface Costs	Air Terminal Costs	Total
9	L, 1, 2&3	\$ 0.05145	\$ 0.00919	\$ 0.06
10	4	0.05145	0.13518	0.19
11	5	0.05145	0.21736	0.27
12	6	0.05145	0.24219	0.29
13	7	0.05145	0.23493	0.29
14	8	0.05145	0.23549	0.29

15 **Weight-related cost.** In accordance with Commission precedent,
 16 each rate cell contains a \$0.02 per pound non-transportation weight-related
 17 cost.

18 **Per-piece cost.** USPS-33N, Line 1 (revised 10/06/97) gives the total
 19 attributable costs (TYBR roll forward, June 5, 1997) as \$2,201,378,000.
 20 Subtracting total weight-related costs of \$840,931,533 from this amount

¹⁰⁵ *Id.*

1 leaves a balance of \$1,360,446,467 to be distributed over TYBR volume of
2 1,123,760,000 pieces (USPS-33N, Line 9, revised 10/06/97), which equals a
3 unit cost of \$1.2106 per piece.

4 The sum of the per-piece unit cost (\$1.21), two-cents per pound non-
5 transportation weight-related unit costs, and total transportation unit costs
6 multiplied by the contingency (1.01) equals the total unit cost for each weight
7 cell shown in Table C-2.

8 **Table C-3: Total Unit Costs Less**
9 **Distance-related Transportation Costs**

10 Deducting the distance-related transportation TYBR unit costs in
11 Table C-1 from the total TYBR unit costs in Table C-2 gives the net TYBR
12 unit costs, including 1 percent contingency, as shown in Table C-3.

13 **Table C-4: Averaging of Two-pound-and-under Costs**

14 Witness Sharkey averages the allocated costs for the two-pound-and-
15 under rate category.¹⁰⁶ To provide a measure of comparison, we have
16 averaged the unit costs by zone for the two-pound-and-under rate category,
17 and have also averaged the unit distance-related transportation costs within
18 the weight category, as shown in Table C-4.

¹⁰⁶ Response of witness Sharkey to UPS/USPS-T33-39 (Tr. 4/2032).

1 **Table C-5: Implicit Coverage Factor Times Applicable Unit Costs**

2 The implicit coverage factor of 2.15 is multiplied by the unit costs to be
3 marked up; *i.e.*, total unit costs less distance-related unit costs. For pieces in
4 the 3 to 70 pound rate cells, the unit costs are in Table C-3; for two-pound-
5 and-under pieces, the unit costs are in Table C-4, Part C.

6 **Table C-6: Initial Cost-Based Rates with**
7 **100 Percent Passthrough for Distance-related Costs**

8 Distance-related transportation costs, including contingency (Table C-
9 1), are added to the marked-up costs in Table C-5. The results, shown in
10 Table C-6, are initial cost-based rates for each cell.

11 **Table C-7: NDMS Proposed Rates**

12 The initial cost-based rates for pieces weighing up to 5 pounds
13 (developed according to the procedure and formula described above in Table
14 C-6), are adjusted to uniform, unzoned rates, beginning at \$3.30 for two-
15 pounds-and-under (including flat-rate envelopes), and increasing by \$1.10 for
16 each one-pound increment, to \$6.60 for a piece that weighs 4-5 pounds.

17 Zone L,1,2&3 rates for 6 through 17 pounds, as well as Zone 4 rates for
18 6 and 7 pounds, have been tapered to provide a smooth adjustment from the
19 unzoned 5-pound rate, as well as eliminate any anomaly.

Revised 2/11/98

1 All other zoned rates from 6 - 70 pounds are rounded to the nearest
 2 nickel, in accordance with Commission precedent. The results are the NDMS
 3 Proposed Rates shown in Table C-7 and Table 4 in the testimony.

4

5 **Table C-8: Percent Change from Docket No. R94-1 Remand Rates**

6 The difference between the NDMS Proposed Rates (Table C-8) and the
 7 Docket No. R94-1 Remand Rates (Table B-1), as a percent of the Docket No.
 8 R94-1 Remand Rates, is shown in Table C-8.

9

10 **Table C-9: Projected TYAR Volume**

11 The projected TYAR volume for the NDMS Proposed Rates
 12 (1,077,498,277 pieces) is developed using the alternate procedure discussed
 13 in the testimony, along with the formula shown in the text and in Appendix
 14 B:

$$15 \quad \text{TYAR}_{IJ} = \text{TYBR } V_{IJ} (1 - 0.435019 * R_{IJ})$$

16

17 **Table C-10: Projected TYAR Revenue**

18 Projected TYAR Priority Mail revenues of \$4,148,097,387 are obtained
 19 by multiplying NDMS Proposed Rates (Table C-7) by projected TYAR
 20 volumes (Table C-9).

Revised 2/11/98

1 **Table C-11: Projected TYAR Costs**

2 Projected TYAR cost, including 1-percent contingency
3 ~~(\$2,141,759,376)~~, is derived by multiplying projected TYAR volume (Table
4 C-9) times unit costs (Table C-2). This cost, subtracted from projected TYAR
5 revenues ~~(\$4,148,097,387 Table C-10)~~, results in a contribution to
6 institutional costs of ~~\$2,006,388,011~~ as shown in Table 5 of the testimony.

Table C-1

Priority Mail
Distance-Related TYBR Transportation Unit Costs
Including 1 Percent Contingency

Weight (Pounds)	L.1,2&3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
1	0.13	0.14	0.10	0.16	0.23	0.36
2	0.26	0.28	0.21	0.33	0.45	0.73
3	0.39	0.42	0.31	0.49	0.68	1.09
4	0.52	0.56	0.41	0.66	0.90	1.46
5	0.65	0.70	0.51	0.82	1.13	1.82
6	0.77	0.84	0.62	0.99	1.35	2.19
7	0.90	0.98	0.72	1.15	1.58	2.55
8	1.03	1.12	0.82	1.32	1.81	2.91
9	1.16	1.26	0.92	1.48	2.03	3.28
10	1.29	1.40	1.03	1.65	2.26	3.64
11	1.42	1.55	1.13	1.81	2.48	4.01
12	1.55	1.69	1.23	1.98	2.71	4.37
13	1.68	1.83	1.34	2.14	2.93	4.74
14	1.81	1.97	1.44	2.31	3.16	5.10
15	1.94	2.11	1.54	2.47	3.39	5.47
16	2.07	2.25	1.64	2.64	3.61	5.83
17	2.20	2.39	1.75	2.80	3.84	6.19
18	2.32	2.53	1.85	2.96	4.06	6.56
19	2.45	2.67	1.95	3.13	4.29	6.92
20	2.58	2.81	2.06	3.29	4.51	7.29
21	2.71	2.95	2.16	3.46	4.74	7.65
22	2.84	3.09	2.26	3.62	4.97	8.02
23	2.97	3.23	2.36	3.79	5.19	8.38
24	3.10	3.37	2.47	3.95	5.42	8.74
25	3.23	3.51	2.57	4.12	5.64	9.11
26	3.36	3.65	2.67	4.28	5.87	9.47
27	3.49	3.79	2.77	4.45	6.09	9.84
28	3.62	3.93	2.88	4.61	6.32	10.20
29	3.75	4.07	2.98	4.78	6.54	10.57
30	3.87	4.21	3.08	4.94	6.77	10.93
31	4.00	4.36	3.19	5.11	7.00	11.29
32	4.13	4.50	3.29	5.27	7.22	11.66
33	4.26	4.64	3.39	5.44	7.45	12.02
34	4.39	4.78	3.49	5.60	7.67	12.39
35	4.52	4.92	3.60	5.76	7.90	12.75
36	4.65	5.06	3.70	5.93	8.12	13.12
37	4.78	5.20	3.80	6.09	8.35	13.48
38	4.91	5.34	3.90	6.26	8.58	13.85
39	5.04	5.48	4.01	6.42	8.80	14.21
40	5.17	5.62	4.11	6.59	9.03	14.57
41	5.29	5.76	4.21	6.75	9.25	14.94
42	5.42	5.90	4.32	6.92	9.48	15.30
43	5.55	6.04	4.42	7.08	9.70	15.67
44	5.68	6.18	4.52	7.25	9.93	16.03
45	5.81	6.32	4.62	7.41	10.16	16.40
46	5.94	6.46	4.73	7.58	10.38	16.76
47	6.07	6.60	4.83	7.74	10.61	17.12
48	6.20	6.74	4.93	7.91	10.83	17.49
49	6.33	6.88	5.03	8.07	11.06	17.85
50	6.46	7.02	5.14	8.24	11.28	18.22
51	6.59	7.17	5.24	8.40	11.51	18.58
52	6.72	7.31	5.34	8.57	11.74	18.95
53	6.84	7.45	5.45	8.73	11.96	19.31
54	6.97	7.59	5.55	8.89	12.19	19.67
55	7.10	7.73	5.65	9.06	12.41	20.04
56	7.23	7.87	5.75	9.22	12.64	20.40
57	7.36	8.01	5.86	9.39	12.86	20.77
58	7.49	8.15	5.96	9.55	13.09	21.13
59	7.62	8.29	6.06	9.72	13.32	21.50
60	7.75	8.43	6.17	9.88	13.54	21.86
61	7.88	8.57	6.27	10.05	13.77	22.23
62	8.01	8.71	6.37	10.21	13.99	22.59
63	8.14	8.85	6.47	10.38	14.22	22.95
64	8.27	8.99	6.58	10.54	14.44	23.32
65	8.39	9.13	6.68	10.71	14.67	23.68
66	8.52	9.27	6.78	10.87	14.90	24.05
67	8.65	9.41	6.88	11.04	15.12	24.41
68	8.78	9.55	6.99	11.20	15.35	24.78
69	8.91	9.69	7.09	11.37	15.57	25.14
70	9.04	9.83	7.19	11.53	15.80	25.50

Sources:
[1] USPS 33-O,
[2] USPS 33-Q (revised 10/06/97).

Table C-2

10402

Priority Mail
Total TYBR Unit Costs
Including 1 Percent Contingency

Weight (Pounds)	L.1,2&3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
1	1.43	1.57	1.62	1.70	1.76	1.90
2	1.64	1.82	2.01	2.19	2.29	2.57
3	1.85	2.27	2.41	2.67	2.83	3.25
4	2.07	2.62	2.80	3.15	3.36	3.92
5	2.28	2.97	3.19	3.63	3.90	4.59
6	2.49	3.32	3.59	4.11	4.43	5.27
7	2.70	3.67	3.98	4.59	4.97	5.94
8	2.91	4.02	4.38	5.07	5.50	6.62
9	3.12	4.37	4.77	5.56	6.04	7.29
10	3.33	4.71	5.17	6.04	6.57	7.97
11	3.54	5.06	5.56	6.52	7.11	8.64
12	3.75	5.41	5.96	7.00	7.64	9.32
13	3.96	5.76	6.35	7.48	8.18	9.99
14	4.17	6.11	6.74	7.96	8.71	10.66
15	4.38	6.46	7.14	8.45	9.25	11.34
16	4.59	6.81	7.53	8.93	9.78	12.01
17	4.80	7.16	7.93	9.41	10.32	12.69
18	5.01	7.51	8.32	9.89	10.86	13.36
19	5.22	7.86	8.72	10.37	11.39	14.04
20	5.43	8.21	9.11	10.85	11.93	14.71
21	5.65	8.56	9.51	11.33	12.46	15.38
22	5.86	8.90	9.90	11.82	13.00	16.06
23	6.07	9.25	10.29	12.30	13.53	16.73
24	6.28	9.60	10.69	12.78	14.07	17.41
25	6.49	9.95	11.08	13.26	14.60	18.08
26	6.70	10.30	11.48	13.74	15.14	18.76
27	6.91	10.65	11.87	14.22	15.67	19.43
28	7.12	11.00	12.27	14.70	16.21	20.10
29	7.33	11.35	12.66	15.19	16.74	20.78
30	7.54	11.70	13.06	15.67	17.28	21.45
31	7.75	12.05	13.45	16.15	17.81	22.13
32	7.96	12.40	13.84	16.63	18.35	22.80
33	8.17	12.75	14.24	17.11	18.88	23.48
34	8.38	13.10	14.63	17.59	19.42	24.15
35	8.59	13.44	15.03	18.08	19.95	24.83
36	8.80	13.79	15.42	18.56	20.49	25.50
37	9.01	14.14	15.82	19.04	21.02	26.17
38	9.23	14.49	16.21	19.52	21.56	26.85
39	9.44	14.84	16.61	20.00	22.09	27.52
40	9.65	15.19	17.00	20.48	22.63	28.20
41	9.86	15.54	17.39	20.96	23.16	28.87
42	10.07	15.89	17.79	21.45	23.70	29.55
43	10.28	16.24	18.18	21.93	24.23	30.22
44	10.49	16.59	18.58	22.41	24.77	30.89
45	10.70	16.94	18.97	22.89	25.30	31.57
46	10.91	17.29	19.37	23.37	25.84	32.24
47	11.12	17.63	19.76	23.85	26.37	32.92
48	11.33	17.98	20.16	24.33	26.91	33.59
49	11.54	18.33	20.55	24.82	27.44	34.27
50	11.75	18.68	20.94	25.30	27.98	34.94
51	11.96	19.03	21.34	25.78	28.51	35.62
52	12.17	19.38	21.73	26.26	29.05	36.29
53	12.38	19.73	22.13	26.74	29.58	36.96
54	12.59	20.08	22.52	27.22	30.12	37.64
55	12.81	20.43	22.92	27.70	30.66	38.31
56	13.02	20.78	23.31	28.19	31.19	38.99
57	13.23	21.13	23.71	28.67	31.73	39.66
58	13.44	21.48	24.10	29.15	32.26	40.34
59	13.65	21.82	24.49	29.63	32.80	41.01
60	13.86	22.17	24.89	30.11	33.33	41.68
61	14.07	22.52	25.28	30.59	33.87	42.36
62	14.28	22.87	25.68	31.08	34.40	43.03
63	14.49	23.22	26.07	31.56	34.94	43.71
64	14.70	23.57	26.47	32.04	35.47	44.38
65	14.91	23.92	26.86	32.52	36.01	45.06
66	15.12	24.27	27.26	33.00	36.54	45.73
67	15.33	24.62	27.65	33.48	37.08	46.40
68	15.54	24.97	28.05	33.96	37.61	47.08
69	15.75	25.32	28.44	34.45	38.15	47.75
70	15.96	25.67	28.83	34.93	38.68	48.43

Sources:

[1] USPS 33-O.

[2] USPS 33-Q (Revised 10/06/97).

Table C-3

10403

Priority Mail
Total TYBR Unit Costs less Distance-Related Transportation Costs
Including 1 Percent Contingency

Weight (Pounds)	<u>L.1.283</u>	<u>Zone 4</u>	<u>Zone 5</u>	<u>Zone 6</u>	<u>Zone 7</u>	<u>Zone 8</u>
1	1.30	1.43	1.51	1.54	1.53	1.53
2	1.39	1.64	1.81	1.86	1.84	1.84
3	1.47	1.85	2.10	2.17	2.15	2.15
4	1.55	2.06	2.39	2.49	2.46	2.46
5	1.63	2.27	2.68	2.81	2.77	2.77
6	1.71	2.47	2.97	3.12	3.08	3.08
7	1.79	2.68	3.26	3.44	3.39	3.39
8	1.87	2.89	3.56	3.76	3.70	3.70
9	1.96	3.10	3.85	4.07	4.01	4.01
10	2.04	3.31	4.14	4.39	4.32	4.32
11	2.12	3.52	4.43	4.71	4.63	4.63
12	2.20	3.73	4.72	5.02	4.94	4.94
13	2.28	3.94	5.01	5.34	5.25	5.25
14	2.36	4.14	5.31	5.66	5.55	5.55
15	2.44	4.35	5.60	5.97	5.86	5.86
16	2.53	4.56	5.89	6.29	6.17	6.17
17	2.61	4.77	6.18	6.61	6.48	6.48
18	2.69	4.98	6.47	6.92	6.79	6.79
19	2.77	5.19	6.76	7.24	7.10	7.10
20	2.85	5.40	7.06	7.56	7.41	7.41
21	2.93	5.61	7.35	7.88	7.72	7.72
22	3.01	5.81	7.64	8.19	8.03	8.03
23	3.10	6.02	7.93	8.51	8.34	8.34
24	3.18	6.23	8.22	8.83	8.65	8.65
25	3.26	6.44	8.52	9.14	8.96	8.96
26	3.34	6.65	8.81	9.46	9.27	9.27
27	3.42	6.86	9.10	9.78	9.58	9.58
28	3.50	7.07	9.39	10.09	9.89	9.89
29	3.58	7.28	9.68	10.41	10.20	10.20
30	3.67	7.48	9.97	10.73	10.51	10.51
31	3.75	7.69	10.27	11.04	10.82	10.82
32	3.83	7.90	10.56	11.36	11.13	11.13
33	3.91	8.11	10.85	11.68	11.43	11.43
34	3.99	8.32	11.14	11.99	11.74	11.74
35	4.07	8.53	11.43	12.31	12.05	12.05
36	4.15	8.74	11.72	12.63	12.36	12.36
37	4.24	8.94	12.02	12.94	12.67	12.67
38	4.32	9.15	12.31	13.26	12.98	12.98
39	4.40	9.36	12.60	13.58	13.29	13.29
40	4.48	9.57	12.89	13.89	13.60	13.60
41	4.56	9.78	13.18	14.21	13.91	13.91
42	4.64	9.99	13.47	14.53	14.22	14.22
43	4.72	10.20	13.77	14.84	14.53	14.53
44	4.81	10.41	14.06	15.16	14.84	14.84
45	4.89	10.61	14.35	15.48	15.15	15.15
46	4.97	10.82	14.64	15.79	15.46	15.46
47	5.05	11.03	14.93	16.11	15.77	15.77
48	5.13	11.24	15.22	16.43	16.08	16.08
49	5.21	11.45	15.52	16.75	16.39	16.39
50	5.29	11.66	15.81	17.06	16.70	16.70
51	5.38	11.87	16.10	17.38	17.00	17.00
52	5.46	12.08	16.39	17.70	17.31	17.31
53	5.54	12.28	16.68	18.01	17.62	17.62
54	5.62	12.49	16.97	18.33	17.93	17.93
55	5.70	12.70	17.27	18.65	18.24	18.24
56	5.78	12.91	17.56	18.96	18.55	18.55
57	5.87	13.12	17.85	19.28	18.86	18.86
58	5.95	13.33	18.14	19.60	19.17	19.17
59	6.03	13.54	18.43	19.91	19.48	19.48
60	6.11	13.74	18.72	20.23	19.79	19.79
61	6.19	13.95	19.02	20.55	20.10	20.10
62	6.27	14.16	19.31	20.86	20.41	20.41
63	6.35	14.37	19.60	21.18	20.72	20.72
64	6.44	14.58	19.89	21.50	21.03	21.03
65	6.52	14.79	20.18	21.81	21.34	21.34
66	6.60	15.00	20.47	22.13	21.65	21.65
67	6.68	15.21	20.77	22.45	21.96	21.96
68	6.76	15.41	21.06	22.76	22.27	22.27
69	6.84	15.62	21.35	23.08	22.57	22.57
70	6.92	15.83	21.64	23.40	22.88	22.88

Source:
Table C-2 less Table C-1.

Priority Mail
Average TYBR Costs for 2-Pounds and Under Rate
Including 1 Percent Contingency

A. Total Unit Costs							
Weight	L,1,2&3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8	TOTAL
FLAT	60,792,072	19,001,310	22,032,408	15,029,595	12,095,532	21,440,802	150,391,719
1	330,670,839	79,298,749	83,451,334	49,920,520	36,556,785	79,084,452	658,982,679
2	311,338,903	96,927,341	101,332,379	61,039,821	47,105,921	104,349,762	722,094,127
Cost	702,801,814	195,227,399	206,816,122	125,889,936	95,758,238	204,875,016	1,531,468,525
Volume	462,513,800	112,990,407	115,602,208	66,038,747	48,220,915	93,570,266	898,936,343
Unit Cost	1.52	1.73	1.79	1.91	1.99	2.19	1.70

B: Distance-Related Transportation Costs							
Weight	L,1,2&3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8	TOTAL
FLAT	5,477,450	1,698,268	1,399,887	1,452,621	1,552,919	4,117,883	15,699,029
1	29,793,903	7,087,434	5,302,301	4,824,852	4,693,447	15,188,822	66,890,760
2	48,916,977	14,176,727	10,351,877	9,199,820	9,272,772	29,570,774	121,488,946
Cost	84,188,330	22,962,429	17,054,065	15,477,293	15,519,138	48,877,479	204,078,734
Volume	462,513,800	112,990,407	115,602,208	66,038,747	48,220,915	93,570,266	898,936,343
Unit Cost	0.18	0.20	0.15	0.23	0.32	0.52	0.23

C: Net Unit Costs (A - B)							
Unit Cost	1.34	1.52	1.64	1.67	1.66	1.67	1.48

Sources:

- [1] USPS 33-L.
- [2] Table C-2.

NOTE: The unit costs in Table C-4 for 2 pounds and under and unit costs for 3 - 70 pounds in Table C-2 equate with those provided in response to UPS/USPS-T33-47 (revised 10/06/97) Tr. ___/___.

Table C-5

10405

Priority Mail
Implicit Coverage Factor (2.15) Times Applicable Unit Costs
Including 1 Percent Contingency

Weight (Pounds)	L 1,2&3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
2	2.88	3.28	3.53	3.60	3.58	3.58
3	3.15	3.97	4.51	4.67	4.62	4.63
4	3.33	4.42	5.14	5.35	5.29	5.29
5	3.50	4.87	5.76	6.03	5.96	5.96
6	3.68	5.32	6.39	6.72	6.62	6.63
7	3.85	5.77	7.02	7.40	7.29	7.29
8	4.03	6.22	7.65	8.08	7.95	7.96
9	4.20	6.67	8.27	8.76	8.62	8.63
10	4.38	7.12	8.90	9.44	9.28	9.29
11	4.56	7.56	9.53	10.12	9.95	9.96
12	4.73	8.01	10.15	10.80	10.61	10.63
13	4.91	8.46	10.78	11.48	11.28	11.29
14	5.08	8.91	11.41	12.16	11.94	11.96
15	5.26	9.36	12.04	12.85	12.61	12.63
16	5.43	9.81	12.66	13.53	13.27	13.29
17	5.61	10.26	13.29	14.21	13.94	13.96
18	5.78	10.71	13.92	14.89	14.60	14.63
19	5.96	11.15	14.54	15.57	15.27	15.29
20	6.13	11.60	15.17	16.25	15.94	15.96
21	6.31	12.05	15.80	16.93	16.60	16.63
22	6.48	12.50	16.43	17.61	17.27	17.29
23	6.66	12.95	17.05	18.29	17.93	17.96
24	6.83	13.40	17.68	18.97	18.60	18.63
25	7.01	13.85	18.31	19.66	19.26	19.29
26	7.18	14.30	18.93	20.34	19.93	19.96
27	7.36	14.74	19.56	21.02	20.59	20.63
28	7.53	15.19	20.19	21.70	21.26	21.29
29	7.71	15.64	20.82	22.38	21.92	21.96
30	7.88	16.09	21.44	23.06	22.59	22.62
31	8.06	16.54	22.07	23.74	23.25	23.29
32	8.23	16.99	22.70	24.42	23.92	23.96
33	8.41	17.44	23.32	25.10	24.58	24.62
34	8.58	17.88	23.95	25.79	25.25	25.29
35	8.76	18.33	24.58	26.47	25.91	25.96
36	8.93	18.78	25.21	27.15	26.58	26.62
37	9.11	19.23	25.83	27.83	27.25	27.29
38	9.28	19.68	26.46	28.51	27.91	27.96
39	9.46	20.13	27.09	29.19	28.58	28.62
40	9.63	20.58	27.71	29.87	29.24	29.29
41	9.81	21.03	28.34	30.55	29.91	29.96
42	9.98	21.47	28.97	31.23	30.57	30.62
43	10.16	21.92	29.60	31.92	31.24	31.29
44	10.33	22.37	30.22	32.60	31.90	31.96
45	10.51	22.82	30.85	33.28	32.57	32.62
46	10.68	23.27	31.48	33.96	33.23	33.29
47	10.86	23.72	32.10	34.64	33.90	33.96
48	11.03	24.17	32.73	35.32	34.56	34.62
49	11.21	24.62	33.36	36.00	35.23	35.29
50	11.38	25.06	33.99	36.68	35.89	35.96
51	11.56	25.51	34.61	37.36	36.56	36.62
52	11.73	25.96	35.24	38.05	37.23	37.29
53	11.91	26.41	35.87	38.73	37.89	37.95
54	12.08	26.86	36.49	39.41	38.56	38.62
55	12.26	27.31	37.12	40.09	39.22	39.29
56	12.43	27.76	37.75	40.77	39.89	39.95
57	12.61	28.20	38.38	41.45	40.55	40.62
58	12.79	28.65	39.00	42.13	41.22	41.29
59	12.96	29.10	39.63	42.81	41.88	41.95
60	13.14	29.55	40.26	43.49	42.55	42.62
61	13.31	30.00	40.88	44.17	43.21	43.29
62	13.49	30.45	41.51	44.86	43.88	43.95
63	13.66	30.90	42.14	45.54	44.54	44.62
64	13.84	31.35	42.77	46.22	45.21	45.29
65	14.01	31.79	43.39	46.90	45.87	45.95
66	14.19	32.24	44.02	47.58	46.54	46.62
67	14.36	32.69	44.65	48.26	47.20	47.29
68	14.54	33.14	45.27	48.94	47.87	47.95
69	14.71	33.59	45.90	49.62	48.54	48.62
70	14.89	34.04	46.53	50.30	49.20	49.29

Source:
Table C-3 x 2.15

Table C-6

10406

Priority Mail
Initial Cost-Based Rates with 100 Percent
Passthrough for Distance-related Costs

Weight (Pounds)	L.1.2&3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
2	3.06	3.48	3.68	3.83	3.90	3.95
3	3.54	4.40	4.82	5.17	5.30	5.72
4	3.85	4.99	5.55	6.01	6.19	6.75
5	4.15	5.57	6.28	6.86	7.08	7.78
6	4.45	6.16	7.01	7.70	7.97	8.81
7	4.76	6.75	7.74	8.55	8.87	9.84
8	5.06	7.34	8.47	9.40	9.76	10.88
9	5.37	7.93	9.20	10.24	10.65	11.91
10	5.67	8.52	9.93	11.09	11.54	12.94
11	5.98	9.11	10.66	11.83	12.43	13.97
12	6.28	9.70	11.39	12.78	13.32	15.00
13	6.58	10.29	12.12	13.62	14.21	16.03
14	6.89	10.88	12.85	14.47	15.10	17.06
15	7.19	11.47	13.58	15.32	15.99	18.09
16	7.50	12.06	14.31	16.16	16.88	19.12
17	7.80	12.65	15.04	17.01	17.78	20.15
18	8.11	13.23	15.77	17.85	18.67	21.18
19	8.41	13.82	16.50	18.70	19.56	22.22
20	8.71	14.41	17.23	19.54	20.45	23.25
21	9.02	15.00	17.96	20.39	21.34	24.28
22	9.32	15.59	18.69	21.24	22.23	25.31
23	9.63	16.18	19.42	22.08	23.12	26.34
24	9.93	16.77	20.15	22.93	24.01	27.37
25	10.24	17.36	20.88	23.77	24.90	28.40
26	10.54	17.95	21.61	24.62	25.79	29.43
27	10.84	18.54	22.34	25.47	26.69	30.46
28	11.15	19.13	23.07	26.31	27.58	31.49
29	11.45	19.72	23.80	27.16	28.47	32.52
30	11.76	20.30	24.53	28.00	29.36	33.56
31	12.06	20.89	25.26	28.85	30.25	34.59
32	12.36	21.48	25.99	29.69	31.14	35.62
33	12.67	22.07	26.72	30.54	32.03	36.65
34	12.97	22.66	27.45	31.39	32.92	37.68
35	13.28	23.25	28.18	32.23	33.81	38.71
36	13.58	23.84	28.91	33.08	34.70	39.74
37	13.89	24.43	29.63	33.92	35.60	40.77
38	14.19	25.02	30.36	34.77	36.49	41.80
39	14.49	25.61	31.09	35.61	37.38	42.83
40	14.80	26.20	31.82	36.46	38.27	43.86
41	15.10	26.79	32.55	37.31	39.16	44.89
42	15.41	27.38	33.28	38.15	40.05	45.93
43	15.71	27.96	34.01	39.00	40.94	46.96
44	16.02	28.55	34.74	39.84	41.83	47.99
45	16.32	29.14	35.47	40.69	42.72	49.02
46	16.62	29.73	36.20	41.54	43.61	50.05
47	16.93	30.32	36.93	42.38	44.51	51.08
48	17.23	30.91	37.66	43.23	45.40	52.11
49	17.54	31.50	38.39	44.07	46.29	53.14
50	17.84	32.09	39.12	44.92	47.18	54.17
51	18.15	32.68	39.85	45.76	48.07	55.20
52	18.45	33.27	40.58	46.61	48.96	56.23
53	18.75	33.86	41.31	47.46	49.85	57.27
54	19.06	34.45	42.04	48.30	50.74	58.30
55	19.36	35.03	42.77	49.15	51.63	59.33
56	19.67	35.62	43.50	49.99	52.52	60.36
57	19.97	36.21	44.23	50.84	53.42	61.39
58	20.28	36.80	44.96	51.68	54.31	62.42
59	20.58	37.39	45.69	52.53	55.20	63.45
60	20.88	37.98	46.42	53.38	56.09	64.48
61	21.19	38.57	47.15	54.22	56.98	65.51
62	21.49	39.16	47.88	55.07	57.87	66.54
63	21.80	39.75	48.61	55.91	58.76	67.57
64	22.10	40.34	49.34	56.76	59.65	68.60
65	22.41	40.93	50.07	57.61	60.54	69.64
66	22.71	41.52	50.80	58.45	61.43	70.67
67	23.01	42.10	51.53	59.30	62.33	71.70
68	23.32	42.69	52.26	60.14	63.22	72.73
69	23.62	43.28	52.99	60.99	64.11	73.76
70	23.93	43.87	53.72	61.83	65.00	74.79

Source:
Table C-5 Plus Distance-Related Transportation Costs (Table C-1)
including 1 percent contingency.

Priority Mail
NDMS Proposed Rates

Weight (Pounds)	L.1.2&3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
FLAT	3.30	3.30	3.30	3.30	3.30	3.30
2	3.30	3.30	3.30	3.30	3.30	3.30
3	4.40	4.40	4.40	4.40	4.40	4.40
4	5.50	5.50	5.50	5.50	5.50	5.50
5	6.60	6.60	6.60	6.60	6.60	6.60
6	6.70	6.90	7.00	7.70	7.95	8.80
7	6.80	7.00	7.75	8.55	8.85	9.85
8	6.90	7.35	8.45	9.40	9.75	10.90
9	7.00	7.95	9.20	10.25	10.65	11.90
10	7.10	8.50	9.95	11.10	11.55	12.95
11	7.20	9.10	10.65	11.95	12.45	13.95
12	7.30	9.70	11.40	12.80	13.30	15.00
13	7.40	10.30	12.10	13.60	14.20	16.05
14	7.50	10.90	12.85	14.45	15.10	17.05
15	7.60	11.45	13.60	15.30	16.00	18.10
16	7.70	12.05	14.30	16.15	16.90	19.10
17	7.80	12.65	15.05	17.00	17.80	20.15
18	8.10	13.25	15.75	17.85	18.65	21.20
19	8.40	13.80	16.50	18.70	19.55	22.20
20	8.70	14.40	17.25	19.55	20.45	23.25
21	9.00	15.00	17.95	20.40	21.35	24.30
22	9.30	15.60	18.70	21.25	22.25	25.30
23	9.65	16.20	19.40	22.10	23.10	26.35
24	9.95	16.80	20.15	22.95	24.00	27.35
25	10.25	17.35	20.90	23.75	24.90	28.40
26	10.55	17.95	21.60	24.60	25.80	29.45
27	10.85	18.55	22.35	25.45	26.70	30.45
28	11.15	19.15	23.05	26.30	27.60	31.50
29	11.45	19.70	23.80	27.15	28.45	32.50
30	11.75	20.30	24.55	28.00	29.35	33.55
31	12.05	20.90	25.25	28.85	30.25	34.60
32	12.35	21.50	26.00	29.70	31.15	35.60
33	12.65	22.05	26.70	30.55	32.05	36.65
34	12.95	22.65	27.45	31.40	32.90	37.70
35	13.30	23.25	28.20	32.25	33.80	38.70
36	13.60	23.85	28.90	33.10	34.70	39.75
37	13.90	24.45	29.65	33.90	35.60	40.75
38	14.20	25.00	30.35	34.75	36.50	41.80
39	14.50	25.60	31.10	35.60	37.40	42.85
40	14.80	26.20	31.80	36.45	38.25	43.85
41	15.10	26.80	32.55	37.30	39.15	44.90
42	15.40	27.40	33.30	38.15	40.05	45.95
43	15.70	27.95	34.00	39.00	40.95	46.95
44	16.00	28.55	34.75	39.85	41.85	48.00
45	16.30	29.15	35.45	40.70	42.70	49.00
46	16.60	29.75	36.20	41.55	43.60	50.05
47	16.95	30.30	36.95	42.40	44.50	51.10
48	17.25	30.90	37.65	43.25	45.40	52.10
49	17.55	31.50	38.40	44.05	46.30	53.15
50	17.85	32.10	39.10	44.90	47.20	54.15
51	18.15	32.70	39.85	45.75	48.10	55.20
52	18.45	33.25	40.60	46.60	48.95	56.25
53	18.75	33.85	41.30	47.45	49.85	57.25
54	19.05	34.45	42.05	48.30	50.75	58.30
55	19.35	35.05	42.75	49.15	51.65	59.35
56	19.65	35.60	43.50	50.00	52.50	60.35
57	19.95	36.20	44.25	50.85	53.40	61.40
58	20.30	36.80	44.95	51.70	54.30	62.40
59	20.60	37.40	45.70	52.55	55.20	63.45
60	20.90	38.00	46.40	53.40	56.10	64.50
61	21.20	38.55	47.15	54.20	57.00	65.50
62	21.50	39.15	47.90	55.05	57.85	66.55
63	21.80	39.75	48.60	55.90	58.75	67.55
64	22.10	40.35	49.35	56.75	59.65	68.60
65	22.40	40.95	50.05	57.60	60.55	69.65
66	22.70	41.50	50.80	58.45	61.45	70.65
67	23.00	42.10	51.55	59.30	62.35	71.70
68	23.30	42.70	52.25	60.15	63.20	72.75
69	23.60	43.30	53.00	61.00	64.10	73.75
70	23.95	43.85	53.70	61.85	65.00	74.80

Source:
Table C-6 with zoned weight cells rounded to the nearest nickel.

Priority Mail
 Percentage Change, NDMS Proposed Rates
 from R94-1 Remand Rates

Weight (Pounds)	L1,2&3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
FLAT	0.10	0.10	0.10	0.10	0.10	0.10
2	0.10	0.10	0.10	0.10	0.10	0.10
3	0.10	0.10	0.10	0.10	0.10	0.10
4	0.10	0.10	0.10	0.10	0.10	0.10
5	0.10	0.10	0.10	0.10	0.10	0.10
6	0.06	0.00	-0.01	0.07	0.02	0.10
7	0.02	-0.07	-0.04	0.02	-0.04	0.01
8	-0.01	-0.06	-0.06	-0.01	-0.06	-0.06
9	-0.05	-0.06	-0.06	-0.03	-0.06	-0.06
10	-0.09	-0.06	-0.06	-0.03	-0.05	-0.06
11	-0.13	-0.06	-0.06	-0.02	-0.04	-0.06
12	-0.16	-0.06	-0.06	-0.02	-0.04	-0.07
13	-0.19	-0.06	-0.05	-0.01	-0.04	-0.07
14	-0.21	-0.06	-0.06	-0.01	-0.03	-0.07
15	-0.24	-0.06	-0.05	0.00	-0.03	-0.06
16	-0.26	-0.06	-0.05	0.00	-0.03	-0.06
17	-0.28	-0.06	-0.05	0.00	-0.02	-0.06
18	-0.28	-0.06	-0.05	0.01	-0.02	-0.06
19	-0.28	-0.06	-0.04	0.01	-0.02	-0.06
20	-0.28	-0.06	-0.04	0.01	-0.02	-0.05
21	-0.29	-0.06	-0.04	0.01	-0.01	-0.05
22	-0.28	-0.06	-0.04	0.02	-0.01	-0.05
23	-0.28	-0.06	-0.04	0.02	-0.01	-0.05
24	-0.28	-0.06	-0.03	0.02	-0.01	-0.05
25	-0.28	-0.06	-0.03	0.02	-0.01	-0.05
26	-0.28	-0.06	-0.03	0.02	-0.01	-0.05
27	-0.28	-0.06	-0.03	0.02	-0.01	-0.05
28	-0.29	-0.06	-0.03	0.03	0.00	-0.05
29	-0.29	-0.06	-0.03	0.03	-0.01	-0.05
30	-0.29	-0.06	-0.03	0.03	0.00	-0.04
31	-0.29	-0.06	-0.03	0.03	0.00	-0.04
32	-0.29	-0.06	-0.02	0.03	0.00	-0.04
33	-0.29	-0.06	-0.02	0.03	0.00	-0.04
34	-0.29	-0.06	-0.02	0.03	0.00	-0.04
35	-0.28	-0.06	-0.02	0.03	0.00	-0.04
36	-0.29	-0.06	-0.02	0.04	0.00	-0.04
37	-0.29	-0.06	-0.02	0.04	0.00	-0.04
38	-0.29	-0.06	-0.02	0.04	0.00	-0.04
39	-0.29	-0.06	-0.02	0.04	0.00	-0.04
40	-0.29	-0.06	-0.02	0.04	0.00	-0.04
41	-0.29	-0.06	-0.02	0.04	0.01	-0.04
42	-0.29	-0.06	-0.02	0.04	0.01	-0.04
43	-0.29	-0.06	-0.02	0.04	0.01	-0.04
44	-0.29	-0.06	-0.02	0.04	0.01	-0.04
45	-0.29	-0.06	-0.02	0.04	0.01	-0.04
46	-0.29	-0.06	-0.01	0.04	0.01	-0.04
47	-0.29	-0.06	-0.01	0.04	0.01	-0.04
48	-0.29	-0.06	-0.01	0.04	0.01	-0.04
49	-0.29	-0.06	-0.01	0.04	0.01	-0.04
50	-0.29	-0.06	-0.01	0.04	0.01	-0.04
51	-0.29	-0.06	-0.01	0.04	0.01	-0.03
52	-0.29	-0.06	-0.01	0.04	0.01	-0.03
53	-0.29	-0.06	-0.01	0.05	0.01	-0.03
54	-0.29	-0.06	-0.01	0.05	0.01	-0.03
55	-0.29	-0.06	-0.01	0.05	0.01	-0.03
56	-0.29	-0.06	-0.01	0.05	0.01	-0.03
57	-0.29	-0.06	-0.01	0.05	0.01	-0.03
58	-0.29	-0.06	-0.01	0.05	0.01	-0.03
59	-0.29	-0.06	-0.01	0.05	0.01	-0.03
60	-0.29	-0.06	-0.01	0.05	0.01	-0.03
61	-0.29	-0.06	-0.01	0.05	0.01	-0.03
62	-0.29	-0.06	-0.01	0.05	0.01	-0.03
63	-0.29	-0.06	-0.01	0.05	0.01	-0.03
64	-0.29	-0.06	-0.01	0.05	0.01	-0.03
65	-0.29	-0.06	-0.01	0.05	0.01	-0.03
66	-0.29	-0.06	-0.01	0.05	0.01	-0.03
67	-0.29	-0.06	-0.01	0.05	0.01	-0.03
68	-0.29	-0.06	-0.01	0.05	0.01	-0.03
69	-0.29	-0.06	-0.01	0.05	0.01	-0.03
70	-0.29	-0.06	-0.01	0.05	0.01	-0.03

Sources:

- [1] Table C-8, NDMS Proposed Rates.
- [2] R-94-1 Remand Rates (Appendix B).

Priority Mail
 Projected TYAR Volumes
 NDMS Proposed Rates

Weight (Pounds)	1, 1.2&3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8	TOTAL
FLAT	40,569,148	11,562,288	13,031,529	8,435,498	6,581,573	10,810,414	90,990,450
1	220,670,785	48,253,249	49,359,038	28,018,350	19,891,737	39,874,240	406,067,389
2	181,153,638	48,259,573	48,182,726	26,712,088	19,649,903	38,815,127	362,773,055
3	47,584,363	14,721,993	14,829,962	9,217,564	6,415,069	13,505,500	106,274,449
4	18,374,490	5,382,153	6,331,508	3,978,560	2,697,526	6,080,430	42,844,667
5	8,884,245	2,850,116	3,249,567	2,101,275	1,509,033	3,196,553	21,790,789
6	5,078,229	1,700,914	1,985,432	1,142,198	992,181	2,006,334	12,905,268
7	3,055,509	1,205,354	1,184,715	837,255	680,331	1,379,592	8,342,757
8	1,992,725	742,982	747,018	540,110	484,082	1,078,073	5,584,991
9	1,368,836	531,988	686,662	313,497	299,856	726,781	3,927,619
10	988,677	412,833	483,085	246,699	261,706	559,626	2,952,625
11	686,120	261,272	319,499	196,324	230,091	513,228	2,206,534
12	405,163	170,024	324,774	167,815	154,580	420,475	1,642,831
13	410,089	116,127	236,530	137,871	85,362	324,292	1,310,272
14	292,941	119,346	249,016	105,398	98,758	277,974	1,143,432
15	256,000	74,409	140,519	78,892	64,277	191,970	806,067
16	282,365	55,365	63,597	65,071	63,782	207,743	737,924
17	211,061	85,242	67,392	42,524	55,312	185,985	647,516
18	149,074	68,817	75,983	38,204	47,376	176,804	556,258
19	116,458	30,951	77,254	36,529	51,758	146,661	459,611
20	115,881	39,837	57,556	24,390	37,942	112,367	387,971
21	93,543	25,470	48,508	17,034	23,222	124,285	332,062
22	109,618	30,716	34,143	19,368	18,545	80,816	293,206
23	168,778	29,146	21,557	15,575	27,105	76,553	338,715
24	75,858	13,219	27,454	18,649	19,475	72,641	227,296
25	76,363	27,200	15,925	25,804	11,150	49,317	205,759
26	106,974	16,298	18,831	7,686	12,666	37,068	199,523
27	43,755	14,913	28,654	11,384	13,946	32,812	145,463
28	48,024	6,901	12,327	7,781	20,419	29,832	125,283
29	36,588	3,588	10,684	3,109	8,812	23,237	86,019
30	41,575	14,609	8,576	3,959	13,389	19,646	101,753
31	32,051	41,400	9,701	13,995	17,157	20,718	135,022
32	31,077	15,998	16,694	23,385	5,884	21,486	114,524
33	32,006	9,500	30,476	8,272	4,277	27,713	112,244
34	26,787	4,621	3,055	7,785	7,719	16,039	66,005
35	35,690	2,196	11,996	7,558	5,447	15,998	78,884
36	11,947	13,944	4,444	6,994	4,743	17,653	59,724
37	7,455	8,468	1,480	4,917	1,894	16,456	40,670
38	28,093	8,100	3,898	2,517	3,550	13,043	59,201
39	20,320	2,691	4,279	4,515	2,342	15,130	49,277
40	14,633	2,638	10,496	3,138	2,389	14,848	48,141
41	11,964	5,730	232	543	6,545	12,759	37,773
42	7,487	4,342	12,460	1,949	5,550	8,254	40,044
43	2,134	511	2,224	4,618	287	3,578	13,352
44	11,191	1,729	3,200	1,282	2,549	4,274	24,225
45	1,333	1,592	732	2,701	1,415	5,075	12,848
46	2,418	3,821	991	1,957	1,192	8,224	18,604
47	2,087	715	212	1,526	996	3,154	8,689
48	3,859	201	1,685	1,503	1,239	2,674	11,161
49	3,572	453	829	1,199	1,284	6,685	14,022
50	6,139	338	280	740	421	9,362	17,280
51	8,605	3,042	0	493	0	1,753	13,894
52	3,309	1,215	1,185	1,038	7,335	9,598	23,681
53	2,802	409	29	3,439	981	1,063	8,724
54	1,316	0	3,054	877	0	22	5,270
55	634	529	0	184	847	4,866	7,060
56	1,369	1,277	669	199	684	2,107	6,304
57	3,539	0	0	0	280	2,925	6,744
58	609	0	290	2,085	263	4,629	7,877
59	517	567	0	1,050	2,099	1,655	5,888
60	144	52	447	1,207	548	1,006	3,405
61	3,005	0	0	0	470	316	3,791
62	3,591	0	29	0	47	2,052	5,719
63	1,664	0	565	0	718	896	3,842
64	511	0	837	0	0	220	1,567
65	321	0	29	22	0	250	623
66	617	0	0	0	0	559	1,175
67	98	7,413	174	0	112	849	8,645
68	877	0	0	0	0	671	1,548
69	1,517	6,561	0	212	0	256	8,546
70	4,549	0	65	104	0	0	4,717
	533,778,711	136,976,947	142,036,755	82,712,231	60,578,443	121,415,191	1,077,498,277

Sources:
 [1] TYBR Volume (USPS-33L).
 [2] Table C-10.

Priority Mail
Projected TYAR Revenues
NDMS Proposed Rates

Weight (Pounds)	1, 1.2&3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8	TOTAL
FLAT	133,878,189	38,155,550	43,004,046	27,837,143	21,719,191	35,674,367	300,268,484
1	728,213,580	159,235,721	162,864,825	92,460,554	65,642,733	131,584,992	1,340,022,415
2	597,807,005	159,256,591	159,002,995	88,149,892	64,844,680	128,089,920	1,197,151,083
3	209,371,195	64,776,768	65,251,831	40,557,280	28,226,303	59,424,201	467,607,578
4	101,059,698	29,601,840	34,823,297	21,882,079	14,836,391	33,442,366	235,645,670
5	58,636,018	18,810,766	21,447,140	13,868,416	8,959,618	21,097,250	143,819,208
6	34,024,133	11,736,304	13,898,025	8,799,019	7,887,683	17,655,735	94,000,899
7	20,777,461	8,437,481	9,181,543	7,158,011	6,020,930	13,588,980	65,164,406
8	13,749,804	5,460,919	6,312,304	5,074,429	4,719,801	11,750,994	47,068,251
9	9,581,851	4,229,306	6,315,828	3,213,341	3,192,811	8,648,695	35,181,833
10	7,019,605	3,509,079	4,806,692	2,738,358	3,022,708	7,247,152	28,343,594
11	4,840,067	2,377,578	3,402,662	2,749,582	2,444,239	7,159,529	23,073,657
12	2,957,693	1,649,091	3,702,420	2,148,037	2,055,909	6,306,852	18,820,000
13	3,034,660	1,196,113	2,862,012	1,875,045	1,212,139	5,204,894	15,384,863
14	2,197,061	1,300,867	3,199,196	1,522,994	1,491,521	4,739,453	14,451,092
15	1,945,599	851,987	1,911,057	1,207,046	1,028,436	3,474,659	10,418,784
16	2,174,213	667,148	909,435	1,050,901	1,077,920	3,967,894	9,847,511
17	1,646,504	1,077,894	1,014,254	722,901	984,551	3,748,296	9,194,399
18	1,207,496	911,823	1,196,738	682,054	883,565	3,748,252	8,629,927
19	978,250	427,129	1,274,442	683,048	1,011,872	3,255,869	7,630,610
20	1,008,163	573,658	992,834	476,816	775,860	2,612,115	6,439,445
21	841,885	382,099	870,712	347,488	495,797	3,020,135	5,958,115
22	1,019,446	479,173	638,468	411,572	412,617	2,044,648	5,005,924
23	1,628,709	472,172	418,198	344,215	626,125	2,017,176	5,506,595
24	754,791	222,082	553,087	428,000	467,405	1,986,721	4,412,087
25	782,723	471,913	332,841	612,840	277,687	1,400,631	3,878,635
26	1,128,579	292,509	406,759	189,064	326,795	1,091,642	3,435,348
27	474,742	276,632	640,408	289,728	372,348	999,124	3,052,983
28	535,362	132,146	284,131	204,632	563,566	939,704	2,659,540
29	419,014	70,684	254,244	84,401	250,702	755,208	1,834,253
30	488,505	296,630	210,531	110,871	392,958	659,114	2,158,609
31	386,218	865,260	244,943	403,737	518,993	716,839	3,135,992
32	383,805	343,957	434,038	694,524	183,273	764,914	2,804,513
33	404,872	209,486	813,720	252,702	137,091	1,015,607	2,833,477
34	346,895	104,673	83,840	244,439	253,940	604,659	1,638,446
35	474,675	51,053	338,281	243,733	184,096	619,122	1,910,961
36	162,482	332,559	128,422	231,509	164,599	701,695	1,721,265
37	103,628	207,035	43,879	166,700	67,401	670,572	1,259,215
38	398,926	202,512	118,312	87,459	129,558	545,222	1,481,990
39	294,844	68,895	133,080	160,722	87,596	648,307	1,393,245
40	216,549	69,098	333,759	114,386	91,395	651,073	1,476,261
41	180,690	153,569	7,561	20,236	256,255	572,872	1,191,183
42	115,306	118,982	414,927	74,364	222,291	379,282	1,325,152
43	33,502	14,273	75,630	180,074	11,759	168,000	483,239
44	179,059	49,356	111,195	51,089	106,690	205,145	702,535
45	21,720	46,419	25,938	109,917	60,431	248,680	513,105
46	40,142	113,668	35,894	81,325	51,973	411,609	734,611
47	35,373	21,658	7,825	64,710	44,314	161,171	335,051
48	66,563	6,220	63,452	65,021	56,228	139,321	396,804
49	62,684	14,268	31,817	52,820	59,451	355,317	576,356
50	109,585	10,840	10,937	33,243	19,891	506,952	691,447
51	156,146	99,486	0	22,573	0	96,750	374,955
52	61,043	40,404	48,120	48,372	359,066	539,914	1,096,920
53	52,543	13,844	1,198	163,203	48,920	60,885	340,592
54	25,066	0	128,440	42,378	0	1,281	197,165
55	12,269	18,536	0	9,040	43,769	288,812	372,425
56	26,895	45,474	29,084	9,962	35,898	127,148	274,462
57	70,600	0	0	0	14,959	179,608	265,167
58	12,371	0	13,041	107,810	14,296	288,869	436,386
59	10,660	21,221	0	55,157	115,874	104,985	307,897
60	3,000	1,987	20,750	64,472	30,741	64,916	185,866
61	63,701	0	0	0	26,793	20,704	111,198
62	77,204	0	1,389	0	2,699	136,582	217,874
63	36,264	0	27,472	0	42,169	60,504	166,409
64	11,291	0	41,288	0	0	15,065	67,643
65	7,196	0	1,451	1,288	0	17,416	27,351
66	13,997	0	0	0	0	39,473	53,470
67	2,245	312,103	8,960	0	7,006	60,864	391,178
68	20,438	0	0	0	0	48,792	69,231
69	35,797	284,099	0	12,918	0	18,888	351,700
70	108,944	0	3,500	6,403	0	0	118,846
	1,949,106,999	521,180,584	555,785,102	331,756,042	250,674,276	539,594,384	4,148,097,387

Sources:

- [1] Table C-7.
- [2] Table C-9.

Table C-11

REVISED 2/11/98

10411

Priority Mail
Projected TYAR Costs
Including 1 Percent Contingency
NDMS Proposed Rates

Weight (Pounds)	L.1.2&3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8	TOTAL
FLAT	58,148,326	18,174,952	21,074,222	14,375,950	11,569,487	20,508,306	143,851,243
1	316,290,514	75,850,083	79,822,046	47,749,452	34,966,899	75,644,938	630,323,932
2	297,798,750	92,711,798	96,925,207	58,385,016	45,057,123	99,811,138	690,689,033
3	88,244,686	33,423,299	35,681,820	24,585,173	18,142,641	43,836,302	243,913,921
4	37,844,734	14,098,482	17,731,443	12,527,307	9,072,488	23,836,336	115,210,789
5	20,217,561	8,461,076	10,382,216	7,628,046	5,882,810	14,686,672	67,258,381
6	12,625,757	5,643,407	7,126,509	4,696,369	4,398,779	10,571,162	45,061,982
7	8,240,218	4,420,105	4,718,722	3,845,671	3,380,338	8,199,270	32,805,323
8	5,793,704	2,984,001	3,270,653	2,740,888	2,664,291	7,134,275	24,587,823
9	4,268,051	2,322,362	3,277,254	1,741,843	1,810,810	5,299,674	18,719,993
10	3,290,912	1,946,354	2,496,186	1,489,487	1,720,475	4,458,169	15,401,583
11	2,428,311	1,323,036	1,776,933	1,499,998	1,395,710	4,434,650	12,858,638
12	1,519,273	920,342	1,934,375	1,174,818	1,181,658	3,916,752	10,647,219
13	1,624,103	669,150	1,502,088	1,031,572	698,215	3,239,496	8,764,623
14	1,221,845	729,368	1,679,604	839,349	860,635	2,864,254	8,295,054
15	1,121,674	480,728	1,003,222	666,253	584,548	2,176,586	6,043,010
16	1,296,658	377,023	479,129	580,868	624,101	2,495,517	5,853,296
17	1,013,667	610,242	534,306	400,067	570,819	2,359,569	5,488,671
18	747,351	516,687	632,390	377,820	514,275	2,362,324	5,150,847
19	608,365	243,195	673,436	378,844	589,540	2,058,471	4,551,852
20	629,752	326,927	524,426	264,690	452,468	1,652,907	3,851,170
21	528,055	217,914	461,118	193,062	289,363	1,912,046	3,601,558
22	641,884	273,525	338,031	228,846	240,999	1,297,801	3,021,086
23	1,023,849	269,724	221,925	191,531	366,753	1,280,967	3,354,749
24	476,150	126,948	293,462	238,311	273,937	1,264,485	2,673,293
25	495,400	270,704	176,515	342,161	162,807	891,732	2,339,319
26	716,514	167,893	216,153	105,612	191,722	695,246	2,093,140
27	302,286	158,834	340,197	161,919	218,547	637,553	1,819,335
28	341,890	75,907	151,214	114,412	330,921	599,765	1,614,109
29	268,185	40,721	135,282	47,209	147,528	482,850	1,121,775
30	313,490	170,902	111,964	62,033	231,313	421,471	1,311,172
31	248,428	498,772	130,480	226,008	305,597	458,444	1,867,729
32	247,423	198,325	231,125	388,900	107,946	489,938	1,663,657
33	261,554	121,093	433,967	141,546	80,766	650,600	1,689,527
34	224,550	60,517	44,704	136,960	149,873	387,351	1,003,855
35	306,893	29,521	180,276	136,604	108,674	397,156	1,158,924
36	105,182	192,334	68,534	129,788	97,169	450,140	1,043,146
37	67,205	119,756	23,408	93,618	39,807	430,715	774,509
38	259,163	117,392	63,197	49,127	76,520	350,182	915,582
39	191,735	39,941	71,059	90,298	51,745	416,412	861,190
40	141,152	40,067	178,431	64,277	54,068	418,665	896,659
41	117,925	89,044	4,040	11,373	151,614	368,368	742,364
42	75,379	68,995	221,661	41,801	131,531	243,879	783,245
43	21,932	8,292	40,449	101,248	6,959	108,136	287,017
44	117,380	28,671	59,448	28,728	63,144	132,039	429,411
45	14,257	26,970	13,882	61,818	35,811	160,216	312,953
46	26,382	66,044	19,201	45,745	30,801	265,172	453,345
47	23,207	12,605	4,185	36,404	26,264	103,824	206,488
48	43,723	3,620	33,969	36,584	33,329	89,829	241,054
49	41,223	8,304	17,028	29,757	35,240	229,077	360,628
50	72,149	6,309	5,659	18,729	11,791	327,115	441,952
51	102,941	57,901	0	12,719	0	62,419	235,981
52	40,276	23,551	25,760	27,259	213,090	348,324	678,260
53	34,696	8,069	642	91,978	29,032	39,311	203,727
54	16,572	0	68,795	23,885	0	827	110,078
55	8,119	10,803	0	5,096	25,977	186,439	236,434
56	17,814	26,540	15,585	5,616	21,327	82,140	169,023
57	46,806	0	0	0	8,887	116,018	171,710
58	8,189	0	6,992	60,785	8,493	186,726	271,185
59	7,062	12,384	0	31,101	68,846	67,855	187,248
60	1,989	1,159	11,130	36,356	18,264	41,953	110,853
61	42,273	0	0	0	15,919	13,389	71,581
62	51,275	0	744	0	1,605	88,318	141,942
63	24,107	0	14,738	0	25,076	39,148	103,070
64	7,510	0	22,143	0	0	9,747	39,400
65	4,790	0	779	727	0	11,267	17,563
66	9,324	0	0	0	0	25,550	34,874
67	1,496	182,484	4,806	0	4,166	39,393	232,346
68	13,634	0	0	0	0	31,575	45,209
69	23,895	166,108	0	7,294	0	12,230	209,527
70	72,616	0	1,879	3,616	0	0	78,111
	873,323,941	270,231,258	297,711,954	190,840,320	150,641,333	359,010,570	2,441,759,376

Sources:

[1] Table C-2.

[2] Table C-9.

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 1997

Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF NASHUA PHOTO INC., DISTRICT PHOTO INC.,
MYSTIC COLOR LAB, AND SEATTLE FILMWORKS, INC.
WITNESS JOHN HALDI
(NDMS-T2)

Party

United Parcel Service

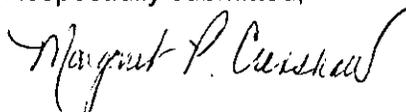
Interrogatories

UPS/NDMS-T2-1-2, 8
USPS/NDMS-T2-6, 8-9

United States Postal Service

UPS/NDMS-T2-1-14
USPS/NDMS-T2-1-2, 4-14

Respectfully submitted,



Margaret P. Crenshaw
Secretary

INTERROGATORY RESPONSES OF
NASHUA PHOTO INC., DISTRICT PHOTO INC., MYSTIC
COLOR LAB, AND SEATTLE FILMWORKS, INC.
WITNESS JOHN HALDI (T2)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory:

UPS/NDMS-T2-1
UPS/NDMS-T2-2
UPS/NDMS-T2-3
UPS/NDMS-T2-4
UPS/NDMS-T2-5
UPS/NDMS-T2-6
UPS/NDMS-T2-7
UPS/NDMS-T2-8
UPS/NDMS-T2-9
UPS/NDMS-T2-10
UPS/NDMS-T2-11
UPS/NDMS-T2-12
UPS/NDMS-T2-13
UPS/NDMS-T2-14
USPS/NDMS-T2-1
USPS/NDMS-T2-2
USPS/NDMS-T2-4
USPS/NDMS-T2-5
USPS/NDMS-T2-6
USPS/NDMS-T2-7
USPS/NDMS-T2-8
USPS/NDMS-T2-9
USPS/NDMS-T2-10
USPS/NDMS-T2-11
USPS/NDMS-T2-12
USPS/NDMS-T2-13

Designating Parties:

UPS, USPS
UPS, USPS
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Interrogatory:

USPS/NDMS-T2-14

Designating Parties:

USPS

Response of Dr. John Haldi to UPS/NDMS-T2-1
Page 1 of 1

UPS/NDMS-T2-1.

Upon implementation of the proposed Priority Mail delivery confirmation service, will the delivery confirmation service for Priority Mail be superior to the delivery confirmation service for First Class mail?

Response:

To the extent that the new delivery confirmation service will be available for Priority Mail and will not be available as an option for First-Class Mail, such delivery confirmation service is better than no delivery confirmation service at all. Mailers have always been able to send First-Class Mail using Certified Mail, return receipt requested. Priority Mail's delivery confirmation service would be superior to that of First-Class Mail, but still inferior to that of the Postal Service's private competitors.

Response of Dr. John Haldi to UPS/NDMS-T2-2
Page 1 of 1

UPS/NDMS-T2-2.

On page 70 of your testimony (NDMS-T-2), lines 6-12, you list several features that you claim Priority Mail lacks. Please confirm that these are features that First Class mail lacks as well. Please explain any answer other than an unqualified confirmation.

Response:

Confirmed. Note that, as I point out on page 70, lines 4-5, these features are certainly not lacking in the competition to Priority Mail.

Response of Dr. John Haldi to UPS/NDMS-T2-3
Page 1 of 1

UPS/NDMS-T2-3.

Please refer to page 58 of your testimony, lines 6-19, and page 59, lines 1-5. Is it your view that the value-of-service criterion contained in 39 U.S.C. Section 3622(b)(2) refers exclusively to the actual performance of the Postal Service? Please explain your answer.

Response:

Not exclusively. The value-of-service criterion encompasses the delivery performance of the product as well as other available features (which indicate "intrinsic value of service"), such as forwarding service, to the product's elasticity of demand (which indicates "extrinsic value of service"). Nevertheless, insofar as it deals with delivery performance, actual performance is more important than stated but unachieved delivery standards.

Response of Dr. John Haldi to UPS/NDMS-T2-4
Page 1 of 1

UPS/NDMS-T2-4.

Please refer to page 58 of your testimony, lines 8 through 17 and page 59, lines 3-5. Is it your view that "high intrinsic value of service" requires an achieved performance superior to the performance of First Class letter mail? Please explain your answer.

Response:

No. However, the Postal Service's proposed cost coverage for Priority Mail was based in part on a perceived superiority over, or at least parity with, the delivery performance of First-Class letter mail. *See* USPS-T-30, p. 27. As my testimony shows, Priority Mail's delivery performance has in fact been consistently worse.

Response of Dr. John Haldi to UPS/NDMS-T2-5
Page 1 of 1

UPS/NDMS-T2-5.

Please refer to page 59 of your testimony, line 14. If the Postal Service had achieved its announced standards for Priority Mail, would it be your view that Priority Mail had a high intrinsic value of service? Please explain your reasoning.

Response:

If the Postal Service had met Priority Mail's delivery standards, the intrinsic value of service for Priority Mail would be higher than it currently is with respect to delivery performance. Likewise, if Priority Mail had some of the features of competitive private products (*e.g.*, delivery date guaranteed or money refunded, insurance included in the basic fee, track-and-trace, and reliable scheduled pickup service), its intrinsic value of service would be higher than it currently is with respect to competitive features.

Response of Dr. John Haldi to UPS/NDMS-T2-6
Page 1 of 1

UPS/NDMS-T2-6.

Please refer to page 59 of your testimony. Assume, hypothetically, that the Postal Service were to reduce its Priority Mail standards to the performance levels that you assert are currently being achieved.

- (a) Under that assumption, would the fact that the Postal Service were achieving its announced standards justify a high cost coverage for Priority Mail? Please explain your answer.
- (b) Under that assumption, would the achievement of the announced standards justify the cost coverage proposed in this case by the Postal Service for Priority Mail? Please explain your answer.
- (c) Under that assumption, would the achievement of the announced standards justify a higher cost coverage than proposed by the Postal Service in this case? Please explain your answer.

Response:

- a.- c. No. With respect to the overnight and second-day delivery standard for First-Class Mail (and the overnight standard for Priority Mail, which coincides with that for First-Class Mail), the Postal Service several years ago played the game of reducing service standards. Tinkering with service standards without actually improving performance would not change Priority Mail's value of service, and would not justify the current cost coverage, much less a higher cost coverage. In my view, this works the other way as well. That is, increasing the delivery standards without doing anything to improve the actual performance level would not justify a higher (or lower) coverage.

Response of Dr. John Haldi to UPS/NDMS-T2-7
Page 1 of 1

UPS/NDMS-T2-7.

If the Postal Service had no announced standards for Priority Mail, would that eliminate the problems of applying the value-of-service pricing criterion that you assert to exist? Please explain your answer.

Response:

No. The first problem in applying the value-of-service criteria is that actual delivery standards do not correlate to stated delivery standards. A second and major problem in applying the value-of-service criteria is the lack of independently gathered end-to-end performance data for Priority Mail. Eliminating service standards would highlight the urgent need for such data and, until such data became available, would make evaluation of Priority Mail performance and value of service more, not less, difficult.

Response of Dr. John Haldi to UPS/NDMS-T2-8
Page 1 of 1

UPS/NDMS-T2-8.

Please refer to page 59, line 12, of your direct testimony, where you assert that many customers consider Priority Mail a three-day service.

- (a) What evidence do you have to support your view?
- (b) Assume that customers do view Priority Mail as a three-day service. Does that mean that customers do not view Priority Mail to be a valuable mail offering? Please explain your answer.
- (c) On page 71, footnote 80, you note that Priority Mail volume, from 1995 to 1996, grew faster than the growth in the comparable service offerings of competitors. How, if at all, is the growth of Priority Mail volume related to your view that many customers consider Priority Mail to be a three-day service? Please explain your answer.

Response:

- a. Conversations with clients sponsoring this testimony and with other large users of Priority Mail.
- b. No. Many of the customers who use a Postal Service product billed as "Priority" Mail undoubtedly value consistency and speed of delivery. For such customers, a three-day service is more valuable than a less expedited service (such as parcel post) and less valuable than delivery service that is more consistent and/or more expedited (such as FedEx or UPS 2nd Day Air).
- c. Many factors other than delivery performance can affect growth, most notably rates for Priority Mail and competitors' products.

Response of Dr. John Haldi to UPS/NDMS-T2-9
Page 1 of 1

UPS/NDMS-T2-9.

Please refer to page 63, lines 19 and 20 of your testimony. What is the evidence that leads you to conclude that one-third of Priority Mail is handled as First Class Mail.

Response:

Witness Moden, in response to APMU/USPS-T33-13(d) (Tr. 11/5641), as cited at page 63, line 17, footnote 66 of my testimony, said that 33 percent of pieces bearing postage for Priority Mail were not identified in FY 1997. In Docket No. R94-1, the Postal Service provided through discovery a Memorandum for Area Managers, Processing & Distribution Area Managers, Customer Services, dated May 10, 1993, from Stephen E. Miller (Tr. 11/5642). In this memorandum, the field was advised that non-identified Priority Mail, other than Priority Mail received in bulk, need not be treated as Priority Mail. This was testified to by witness Foster in Docket No. R94-1 in response to AMPU/USPS-T11-14(c), and was again acknowledged to be accurate by witness Moden in this docket. (Tr. 11/5640).

Response of Dr. John Haldi to UPS/NDMS-T2-10
Page 1 of 1

UPS/NDMS-T2-10.

If you are correct that "Priority Mail ... suffered far more inconsistent and unreliable service than did First Class Mail" (page 62, lines 2 and 3 and page 63, lines 12 and 13), would it follow that handling Priority Mail as First Class Mail (page 62, lines 19-20) would improve Priority Mail performance and increase its intrinsic value, as you define "intrinsic value"?

Response:

As worded, the question is difficult to answer. If Priority Mail were to be handled as First-Class Mail, as the question posits, I do not have the means to predict what the outcome would be. The operational result might be to degrade the service received by First-Class Mail, rather than improve the service performance of Priority Mail.

If, hypothetically, Priority Mail performance were to improve to the point where such performances equaled that received by First-Class Mail (however achieved), then in my opinion the improvement in performance would enhance the value of service.

Response of Dr. John Haldi to UPS/NDMS-T2-11
Page 1 of 1

UPS/NDMS-T2-11.

Please refer to pages 67 and 68 of your testimony. Is it a fair understanding of your testimony that the PMPC network will degrade actual Priority Mail performance and increase Priority Mail costs relative to Priority Mail performance and cost without the PMPC network? Please explain your answer.

Response:

Lest there be any misunderstanding, it is not my testimony that the purpose of the PMPC network is to degrade service and increase cost. With respect to its effects, the network is not even fully installed, hence "the jury is still out." However, it may have the effect of both increasing costs and degrading service. For a discussion of how the PMPC network will not improve, and may actually degrade, Priority Mail performance, please refer to my response to USPS/NDMS-T2-2(a). The Postal Service increases cost attributions to Priority Mail by \$265 million due to the PMPC contract, while only finding \$127 million in direct cost reductions, for a net increase in cost of \$138 million. See my testimony, pages 74 and 75.

Response of Dr. John Haldi to UPS/NDMS-T2-12
Page 1 of 1

UPS/NDMS-T2-12.

Are you arguing, on pages 67 through 69 of your testimony, that the Postal Service should not have entered into the PMPC contract? Please explain your answer.

Response:

It remains to be seen what the result will be and whether this was a sound decision. I have explained how, at least in the short run, which includes the test year in this docket, the PMPC network will surely increase costs and likely degrade performance. Implementation of the PMPC network should certainly not be counted among the justifications for a high cost coverage on Priority Mail.

Response of Dr. John Haldi to UPS/NDMS-T2-13
Page 1 of 1

UPS/NDMS-T2-13.

If the Postal Rate Commission were to set a low cost coverage for Priority Mail on the basis of your analysis contained on pages 67 through 69 of your testimony, would the Commission be substituting its management judgement for that of the Postal Service with respect to the operational arrangements for providing Priority Mail Service?

Response:

No. Although I am not a lawyer, the development of cost coverages based on the 39 U.S.C. §3622(b) criteria would clearly appear to be within the Postal Rate Commission's discretion. Further, value of service is one of the statutory criteria which must be examined by the Commission. The existence of the PMPC contract should not be used as a basis to support a high coverage level, as stated in my testimony at page 69, lines 4 through 8.

Response of Dr. John Haldi to UPS/NDMS-T2-14
Page 1 of 1

UPS/NDMS-T2-14.

Please refer to page 71, footnote 80, where you note that, from 1995 to 1996, the growth of Priority Mail exceeded the growth rate of comparable services offered by its competitors. Assume for purposes of this question that this higher-than-competitors' growth rate were a reversal of the trend you discussed. On that assumption, what would be the implications for the cost coverage of Priority Mail?

Response:

If, over time, it were to be established that the steady deterioration of market share has in fact stopped and the declining trend has been reversed, that fact by itself would support a higher cost coverage, just as the continued erosion of market share which has been documented in this docket indicates the appropriateness of a lower cost coverage.

Response of Dr. John Haldi to USPS/NDMS-T2-1
Page 1 of 1

USPS/NDMS-T2-1.

Please refer to pages 68-69 of your testimony, in which you note that Priority Mail is being charged with the entire Phase I cost for the PMPC network during the test year.

- (a) Please confirm that the cost of operating the new PMPC network in the test year will be incurred entirely on behalf of Priority Mail. If not confirmed, please explain fully to which class or classes of mail these costs relate.
- (b) Is it your position that the entire Phase I cost for the PMPC network during the test year should not be charged to Priority Mail? If so, please explain fully to which classes of mail this cost should be charged, why, and in what manner.

Response:

- (a) Confirmed.
- (b) No. It would not be wrong to attribute the test year costs of the PMPC contract to Priority Mail. On the other hand, when private industry undertakes the startup of a major initiative with long-term consequences and payout, it is sometimes deemed appropriate to capitalize some of the initial start-up expense, and write off the capitalized amount over future years. My point is that since the Postal Service has elected to charge off all start-up expenses as incurred, and concurrently impose a high markup on Priority Mail during the test year, the coverage certainly should not be any higher than that proposed. Also note that, as stated in my testimony (NDMS-T2, p. 74, l. 10 to p. 77, l. 14), the prospective test year net cost estimates for Priority Mail appear to be overstated.

Response of Dr. John Haldi to USPS/NDMS-T2-2
Page 1 of 3

USPS/NDMS-T2-2.

On page 63, line 14 of your testimony you state that "whatever value the PMPCs may have in ultimate improvement of delivery service, if any, will certainly not materialize until some time after the test year".

- (a) Please provide fully the basis for this statement.
- (b) Is it possible that the implementation of the PMPC network will improve Priority Mail Service before the end of the test year? If this is not possible, please explain why.
- (c) Is it possible that the introduction of the PMPC network will improve Priority Mail service at some time after the test year? If this is not possible please explain why.

Response:

- (a) First of all, it is my understanding that only one-third of Priority Mail will come in any contact with the PMPC network during the test year, and that of that third, only one-third will both originate and destinate within the PMPC network. Even if there were an improvement in handling Priority Mail as a result of the PMPC network, it is virtually impossible that such an improvement could significantly affect the overall service and performance of Priority Mail in the test year.

Second, the stated service goal of 96.5 percent on-time (2-day) performance for the PMPC contract is not measured from time of entry to time of delivery, but from when the Postal Service tenders the mail to Emery to when Emery tenders it back to the Postal Service. APMU/USPS-T33-3 (Tr. 4/1929). Presumably Emery would endeavor to tender this mail back to the

Response of Dr. John Haldi to USPS/NDMS-T2-2

Page 2 of 3

Postal Service in time for delivery on the second day, but while the results remain to be seen, there may be more Priority Mail delivered in a 3-day period as a result of the PMPC contract.

Third, the Phase I area has only 10 PMPCs, through which all Priority Mail within the designated area must be routed, including "local" overnight mail in urban areas not close to the 10 centers (e.g., Tallahassee, Tampa, and Fort Myers in Florida, or Burlington, Vt., Albany, N.Y., Springfield, Mass., and Portland, Me. in the Northeast). If local Priority Mail (deposited before 5 p.m.) within such cities no longer receives next day delivery, service will have performance declined from existing levels. "Massing of the mail" within fewer centers can and often does have a serious negative impact on service performance for what normally should be next-day delivery. See, for example, the testimony of witness Patsy Speights (NNA-T2). If the Postal Service reduces the volume of Priority Mail that receives delivery in 3 or more days, while also reducing the volume of local mail that receives overnight delivery by an equal or greater amount, the Postal Service should not claim that service has improved.

Last, Priority Mail drop-ship users apparently will no longer be able to enter plant loads directly at Airport Mail Centers, which will likely also cause Priority Mail service within the PMPC network area to deteriorate. See NDMS-T2, p. 67, ll. 4-17.

Response of Dr. John Haldi to USPS/NDMS-T2-2
Page 3 of 3

- (b) Yes, service may improve, but it also is possible that service will be worse or stay the same. Without good performance measurement data, it will not be possible to ascertain what the level of service is. Furthermore, since no reliable data exist for the period before the PMPC contract took effect, it will not be possible to state whether service is any better on account of the contract.
- (c) See response to (b).

Response of Dr. John Haldi to USPS/NDMS-T2-4
Page 1 of 2

USPS/NDMS-T2-4.

In reference to the implementation of the PMPC contract, on page 78, line 3 of your testimony, you state that "the Postal Service identifies a reduction of approximately \$45 million in mail processing direct costs due to the contract", but that "the Postal Service, however, does not identify any reduction in the indirect costs of mail processing (such as supervisor salaries, equipment maintenance personnel, benefits and unemployment compensation, or building rent or utilities). Based on Priority Mail's test year piggyback ratio of 1.559, mail processing cost reductions due to the contract are understated by \$25 million." Please also refer to LR H-77, pages 1-3 of the partial response of the United States Postal Service to ANM/USPS-1-17, and the Testimony and Workpapers of Richard Patelunas, USPS-T-15.

- (a) Please confirm that the source of the data which results in the 1.559 piggyback factor you have referenced is the Testimony of Richard Patelunas, Exhibit USPS-15E (Cost Segments and Components Report for before rates test year). If you do not confirm, please explain fully and provide the source.
- (b) Please confirm that the costs reflected in Exhibit USPS-15E (Cost Segments and Components Report for before rates test year), result from the application of the logic within the rollforward model and not the application of the 1.559 piggyback factor. If you do not confirm, please explain your answer fully.
- (c) Please confirm that Exhibit USPS-15E includes the distribution of the indirect costs you have specified to classes, sub-classes and special services. If you do not confirm, please explain your answer fully.
- (d) Please confirm that the total amount of costs for Priority Mail in Exhibit USPS 15E is greater than the amount of costs for Priority Mail reflected in Patelunas Workpaper WP-E, Table A (Test Year Before Rates Costs without PESSA), and that the total of all Postal Service costs in both of these reports is the same. If you do not confirm, please explain your answer fully.

Response of Dr. John Haldi to USPS/NDMS-T2-4
Page 2 of 2

Response:

- (a) Questions regarding the sources of data found in Postal Service library references, exhibits and workpapers might better be directed to the individuals who prepared them. My source for the piggyback factor was LR-H-77, p. 46.
- (b) See response to (a).
- (c) Confirmed.
- (d) Confirmed.

Response of Dr. John Haldi to USPS/NDMS-T2-5

Page 1 of 1

NDMS/USPS-T2-5.

In reference to the implementation of the PMPC contract, on page 78, line 3 of your testimony, you state that "the Postal Service identifies a reduction of approximately \$45 million in mail processing direct costs due to the contract", but that "the Postal Service, however, does not identify any reduction in the indirect costs of mail processing (such as supervisor salaries, equipment maintenance personnel, benefits and unemployment compensation, or building rent or utilities). Based on Priority Mail's test year piggyback ratio of 1.559, mail processing cost reductions due to the contract are understated by \$25 million." Please also refer to LR H-77, pages 1-3 of the partial response of the United States Postal Service to ANM/USPS-1-17, and the Testimony and Workpapers of Richard Patelunas, USPS-T-15.

- (a) Please confirm that a portion of the difference between Patelunas Exhibit-15E and Patelunas Workpaper WP-E is the result of the *Mail Processing Direct Labor (Component 35) distribution key*. Additionally, please confirm that the Priority Mail cost in Mail Processing Direct Labor (Component 35) is \$45 million less due to the PMPC cost reduction in the rollforward. If you do not confirm either or both statements, please explain fully.

Response:

- (a) Based on the analysis contained in this interrogatory, it appears that the indirect costs discussed in my testimony have been captured in the rollforward model. Accordingly, I will withdraw the related portion of my testimony, p. 77, l. 15 to p. 78, l. 10.

Response of Dr. John Haldi to USPS/NDMS-T2-6
Page 1 of 1

USPS/NDMS-T2-6.

For all zoned Priority Mail (i.e. pieces over five-pounds), what is your proposed average increase in rates (weighted by volume)? Please explain and document your answer fully.

Response:

Using the Test Year Before Rates volumes provided in Table B-4 of my testimony, revenue from the current rates for 6- to 70-pound Priority Mail is \$476,750,049, which amounts to \$10.33 per piece. Using Test Year After Rates volumes from Table C-9 of my testimony (reflecting my alternative method for projecting volumes), revenues from the NDMS proposed rates for 6- to 70-pound Priority Mail would be \$463,585,224, which amounts to \$9.91 per piece. Of course, current rates reflect the arbitrary reduction of the unzoned Priority Mail rates and corresponding increase of the zoned Priority Mail rates as a result of the Commission's *Opinion & Recommended Decision* in Docket No. R94-1. (See Lib. Ref. PRC 12, Tables VII and VIII). My proposed rates correct this skew, more properly relate rates to costs, and thus represent a long overdue correction — a 4 percent average rate decrease for 6- to 70-pound Priority Mail.

Response of Dr. John Haldi to USPS/NDMS-T2-7
Page 1 of 1

USPS/NDMS-T2-7.

Please refer to Table C-7 at C-15 in your testimony.

- a. Please confirm that the rate for a 35-pound piece in zone L,1,2,3 is \$12.30 and the rate for a 34-pound piece in zone L,1,2,3 is \$12.95.
- b. Please confirm that the rates for 45- and 46-pound pieces in zone L,1,2,3 are both \$16.30.
- c. Are any of the rates identified in parts a. and b. above, in error? If so, please provide a revised Table C-7 and all other revisions needed to correct your testimony. If the rates are correct, please explain fully.

Response:

- a. - c. Please refer to errata to NDMS-T-2, to be filed correcting my proposed rates for 35- and 46-pound pieces to Zone L,1,2,3, as well as the 15-pound rate to Zone 4, and the 68-pound rate to Zone 7. These errata revise Table 4 from page 45 of my testimony and Tables C-7 through C-11 in Appendix C.

Response of Dr. John Haldi to USPS/NDMS-T2-8
Page 1 of 1

USPS/NDMS-T2-8.

Please confirm that the maximum percentage increase you propose for any given Priority Mail rate is ten percent. Please also confirm that you impose this maximum percentage increase on each and every unzoned rate. If you do not confirm, explain fully.

Response:

Confirmed. I propose a uniform 10 percent rate increase for the unzoned cells.

Response of Dr. John Haldi to USPS/NDMS-T2-9
Page 1 of 1

USPS/NDMS-T2-9.

Please confirm that the maximum percentage decrease you propose for any given Priority Mail rate cell is thirty-four percent. Please confirm that you propose the maximum percentage decrease on the 35-pound zone 1,2,3 rate. If you do not confirm, explain fully.

Response:

Not Confirmed. The maximum percentage decrease is 29.18 percent on the 65-pound zone L,1,2,3 rate. See errata to NDMS-T-2 to be filed and my response to USPS/NDMS-T2-7.

Response of Dr. John Haldi to USPS/NDMS-T2-10
Page 1 of 1

USPS/NDMS-T2-10.

Your analysis of volume trends for zoned and unzoned Priority Mail following the Docket No. R94-1 rate change looks at the change from FY1993 to FY1996, as presented in Table 2. Did you perform a similar analysis for the change from FY1994 to FY1996? If so, please present the results. If not, why did you limit your analysis to the changes from FY1993 to FY1996.

Response:

No. When I prepared my testimony I looked for Priority Mail volume data presented with sufficient detail so that I could compare the growth in zoned versus unzoned rate cells. These data were presented by the Postal Service in Docket No. R94-1 for the base year in that docket, which was FY 1993. Comparable data were presented by the Postal Service in Docket No. R97-1 for the base year in this docket, FY 1996. Insofar as these were the data I had available, I made the comparison presented in Table 2. I did not compare the volumes in FY 1996 with the volumes in FY 1994 because I did not have immediate access to comparable FY 1994 data.

Response of Dr. John Haldi to USPS/NDMS-T2-11
Page 1 of 1

USPS/NDMS-T2-11.

Please refer to your testimony at pages 32 to 37 where you discuss your treatment of distance-related transportation cost. You recommend not marking up distance-related transportation cost for the purpose of Priority Mail rate design. You also state that "costs avoided and costs incurred are (and should be treated as) the opposite side of the same coin." NDMS-T-2 at 35.

- (a) In your opinion, should other *non-transportation* costs avoided under workshare discount programs also not be marked up in the rate design process? If so, please explain fully, and identify all cost elements you would not markup in Priority Mail. If not, please explain fully, including your complete rationale for limiting your recommendation.
- (b) Is it your testimony that transportation-related costs for other classifications, such as bound printed matter and parcel post, not be marked up? Please explain fully.

Response:

- (a) I am not aware of any intermediate labor costs that are or would be avoided when Priority Mail is entered at some point closer to the final destination, and I am aware of no other cost elements regarding when the decision to impose a markup must be made.
- (b) I have not testified about BPM or parcel post.

Response of Dr. John Haldi to USPS/NDMS-T2-12
Page 1 of 1

USPS/NDMS-T2-12.

Please refer to your testimony at page 6, lines 14 through 15, where you state: "When a package of prints weighs more than one pound, certain companies send such packages direct, via **Priority Mail.**" [Emphasis original] Please specify the means by which companies other than these "certain companies" send their packages of prints weighing more than one pound.

Response:

In addition to use of Priority Mail, the options are (i) to split the contents into two Standard A Regular packages, each of which weighs less than one pound, or (ii) send the package via an alternate delivery service, such as UPS. Those companies that do not send individual Priority Mail packages use one or both of the above options.

Response of Dr. John Haldi to USPS/NDMS-T2-13
Page 1 of 1

USPS/NDMS-T2-13.

Please refer to your table at the top of page 16 of your testimony. Please confirm that, under the Postal Service's proposal, for mailers using electronic manifests, the rate differentials you have identified would be between a First-Class Mail service without delivery confirmation service and a Priority Mail service with delivery confirmation service. If you do not confirm, please explain fully.

Response:

Confirmed.

Response of Dr. John Haldi to USPS/NDMS-T2-14
Page 1 of 1

USPS/NDMS-T2-14.

Please refer to your testimony at page 17, lines 6 to 7, where you state that the Postal Service developed an econometric model "to estimate the price elasticity of Priority Mail." Please confirm that the model in question estimates one own-price elasticity for Priority Mail as a whole. If you do not confirm, please explain fully.

Response:

Confirmed.

1 CHAIRMAN GLEIMAN: Does any participant have
2 additional written cross-examination for the witness?

3 MR. COOPER: Yes, Mr. Chairman.

4 CHAIRMAN GLEIMAN: And would you please approach
5 the witness?

6 CROSS-EXAMINATION

7 BY MR. COOPER:

8 Q Mr. Haldi, I am handing you two copies of your
9 responses to Postal Service Interrogatories,
10 USPS-NDMS-T-2-15 through 32. Are you familiar with those
11 responses?

12 A Yes, I am.

13 Q Have you had a chance to review those recently?

14 A Yes, I have.

15 Q If you were to be giving answers orally today to
16 the questions posed in those interrogatories, would your
17 answers be the same as those reflected in the written form?

18 A Yes, they would.

19 MR. COOPER: Mr. Chairman, I would ask that these
20 written interrogatory responses be admitted into evidence
21 and entered into the transcript.

22 CHAIRMAN GLEIMAN: If you would please provide
23 copies to the reporter. The Designated -- the Additional
24 Designated Written Cross-Examination of Witness Haldi will
25 be accepted into evidence and transcribed into the record at

1 this point.

2 [Additional Designation of Written
3 Cross-Examination of Dr. John
4 Haldi, NDMS-T-2, was received into
5 evidence and transcribed into the
6 record.]

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Response of Dr. John Haldi to USPS/NDMS-T2-15
Page 1 of 3

USPS/NDMS-T2-15.

Please refer to your testimony at page 18, footnote 20, where you state that the "Commission subsequently recommended rates that imposed widely varying percentage increases between rate cells." Please provide the threshold of rate differences beyond which percentage increases in rates are to be considered "widely varying."

Response:

The question you cite occurs in my discussion about the procedure which the Postal Service uses to project the volume in each rate cell, along with my proposed alternate procedure. At the time I prepared my testimony, some points may have been left implicit. The reason for my alternate procedure is to avoid the anomalous situation where higher rates in certain cells and lower rates in other cells result in higher volume for the cells with disproportional increases in rates. What I perhaps failed to point out explicitly is that the elasticity of demand also plays a role. To see this, consider the extreme case where demand is totally inelastic. In that case, the projected volume would be the same, regardless of how the rate design allocated increases to individual cells. Thus, when I wrote about a "widely varying percentage increase between rate cells," it would have been better to note that the rather different percentage changes recommended by the Commission, *coupled with the relatively high elasticity of demand for Priority Mail*, were capable of resulting in widely varying outcomes.

Response of Dr. John Haldi to USPS/NDMS-T2-15
Page 2 of 3

Comparisons of percentage changes in different rate cells can be made in at least two ways. To illustrate, assume that the rate in the "first" cell increases by 15 percent, and the rate in the "second" cell increases by 3 percent. One way to view these changes in rates is to say that the difference between the first and second cells is 12 percent (*i.e.*, 15 percent - 3 percent). Another way to view these changes in rates is to say that the increase in the first cell is 5 times the increase in the second cell. Each of the above comparisons has merit, and helps put the percentage changes in context. Call the preceding example Scenario A.

Continuing, consider two other scenarios, with percentage rate changes as follows:

	<u>Scenario B</u>	<u>Scenario C</u>
First rate cell	13%	36%
Second rate cell	1%	24%

In each of these two scenarios, the difference between the first rate cell and the second rate cell is 12 percent. In scenario B, the increase in the first rate cell is 13 times the increase in the second rate cell, whereas in scenario C the increase in the first rate cell is only 1.5 times the increase in the second rate cell.

Now let me endeavor a direct answer to the question posed. In view of the relatively high elasticity of demand for Priority Mail, if pressed for a definition of the term I used, the threshold of rate differences beyond which percentage increases in rates could reasonably be considered widely varying are when (i) the difference in the percentage

Response of Dr. John Haldi to USPS/NDMS-T2-15
Page 3 of 3

increases exceeds 5 percent, AND (ii) the higher percentage increase exceeds 1.5 times the lower percentage increase. Note that both of these threshold conditions need to be exceeded in order for percentage changes to be considered as "widely varying."

Wholly irrespective of whether these rate increases are "widely varying," in the current docket I urge that my alternative volume projection approach be adopted as the better and more accurate approach overall.

Response of Dr. John Haldi to USPS/NDMS-T2-16
Page 1 of 1

USPS/NDMS-T2-16

Please refer to page 20, line 23, where you indicate that problems exist "when changes in individual rate cells vary widely." Please provide the threshold of rate differences beyond which changes are to be considered to vary widely.

Response:

See my response to USPS/NDMS-T2-15.

Response of Dr. John Haldi to USPS/NDMS-T2-17
Page 1 of 1

USPS/NDMS-T2-17

Please refer to your testimony at page 22, line 1, where you refer to the Commission's rates as increasing "considerably more" than the rates proposed by the Postal Service in Docket No. R94-1. Please provide the threshold of difference in rate increase beyond which such changes are to be considered "considerably more."

Response:

Actually, I said that in "some instances" (*i.e.*, rate cells) the Commission recommended rate increases for 5- to 70-pound Priority Mail which were "considerably more" than the 10.4 percent average increase proposed by the Postal Service in Docket No. R94-1. *See* NDMS-T-2, p. 21, l. 18 to p. 22 l. 1. For example, for 15-pound Priority Mail sent to Zone 4, the Commission recommended a 31 percent increase. This increase is not only "considerably more," it is also "significantly higher" than the 10.4 percent across-the-board increase proposed by the Postal Service. Yet, due to the lower average increase recommended by the Commission, using the standard procedure for projecting After Rates volumes, the Commission's recommended rate increase resulted in a higher volume estimate for 15-pound Priority Mail sent to Zone 4 than did the Postal Service's proposed increase. As I discuss in the section of my testimony to which you refer, such estimates defy logic.

Response of Dr. John Haldi to USPS/NDMS-T2-18
Page 1 of 1

USPS/NDMS-T2-18

Please refer to your testimony at page 22, line 3, where you refer to "significantly" higher rates proposed by the Commission than proposed by the Postal Service. Please provide the threshold of difference in rate increase beyond which such changes are to be considered to be "significantly" higher.

Response:

See my response to USPS/NDMS-T2-17.

Response of Dr. John Haldi to USPS/NDMS-T2-19
Page 1 of 1

USPS/NDMS-T2-19

Please refer to your testimony at page 22, line 21, where you refer to growth rates that "were strikingly different." Please provide the threshold of difference in growth rates beyond which such differences in growth are to be considered "strikingly" different.

Response:

I have not developed any fixed threshold beyond which differences in growth rates become "striking." However, I was struck by the fact that 5-pound-and-under Priority Mail grew at three times the rate of 6- to 70-pound Priority Mail, a mailer response to higher than average rates which is completely missed by the standard procedure of projecting after rates volumes based on average proposed increases.

It is perhaps worth noting that should this trend in growth of the two weight groups of Priority Mail continue at the same rate, by 2006 the share of 6- to 70-pound pieces in total Priority Mail volume would decline by more than half, from 4.11 percent in FY 1996 to less than 2.00 percent, a striking reduction.

My dictionary defines "striking" as, *inter alia*, "noticeable or conspicuous," and this is the meaning I intended.

Response of Dr. John Haldi to USPS/NDMS-T2-20
Page 1 of 1

USPS/NDMS-T2-20

Please refer to your testimony at page 38, line 8, where you refer to "extremely wide averaging across all eight zones." Please provide the threshold beyond which you would consider averaging to be "extremely wide."

Response:

My discussion refers to the fact that costs for unzoned Priority Mail are averaged over every zone, from local through zone 8. There are alternative approaches. For example, the Postal Service might have collapsed the existing six zones into three different rates (*e.g.*, up to 600 miles, 601 to 1,400 miles, and more than 1,400 miles). Alternatively, the Postal Service might have averaged costs and rates over only two zones (*e.g.*, up to 1,000 miles, and more than 1,000 miles). Instead, it averaged costs and rates over *every possible zone; i.e.*, the *maximum*. Since there are no other zones over which costs and rates could be averaged, I consider such averaging to be *extremely wide*.

The word "extremely" is an adverb, derived from "extreme," which is defined in the Random House College Dictionary as

of a character or kind farthest removed from the ordinary; utmost or exceedingly great in degree; farthest from the center or middle; outermost; endmost.

Averaging costs and rates over any number of zones less than the utmost, or maximum, would be below the threshold of "extremely wide."

Response of Dr. John Haldi to USPS/NDMS-T2-21
Page 1 of 1

USPS/NDMS-T2-21

Please refer to your testimony at page 22, lines 10 through 12, where you ask: "Does elasticity apply to individual rate cells? That is, will higher-than-average rate increases in certain cells cause a higher-than-average reduction in volume in these cells?"

- a. Please confirm that the elasticity to which you refer is the own-price elasticity. If you do not confirm, please explain fully.
- b. Please provide any and all analyses preformed by you to develop own-price elasticity estimates for each rate cell.
- c. Please provide any and all analyses performed by you to develop cross-price elasticity estimates for each rate cell.

Response:

- (a) Confirmed.
- (b) See my testimony, NDMS-T-2, page 25, footnote 25.
- (c) I relied on demand studies and elasticity estimates provided by the Postal Service, and performed no such independent analyses.

Response of Dr. John Haldi to USPS/NDMS-T2-22

Page 1 of 1

USPS/NDMS-T2-22

Please refer to your testimony at page 22, lines 20 and 21, through page 23, line 3.

- a. Please provide any and all analyses performed by you of the total market for services similar to those provided by Priority Mail, specifically noting the growth rates for the segment of the market serving items weighing more than five pounds and for the segment of the market serving items weighing less than five pounds.
- b. If you are unable to provide information responsive to part a, please explain how you may confidently associate the difference in growth rates you have observed between the Priority Mail volume over five pounds and the volume under five pounds to be tied to the rate changes resulting from Docket No. R94-1.
- c. Have you performed any historical review to determine the growth rates of Priority Mail volume above and below five pounds separately? If so, please provide the results of such analysis.

Response:

- (a) I have performed no such analyses.
- (b) Growth in different segments of the expedited delivery market (*e.g.*, above and below 5 pounds) is obviously the result of a number of different forces. It would be desirable to have more data than have been made available by the Postal Service in its interrogatory responses, as well as an analysis of those data.
- (c) No.

Response of Dr. John Haldi to USPS/NDMS-T2-23

Page 1 of 2

USPS/NDMS-T2-23

Please refer to your testimony at page 26, note 27.

- a. If your proposal increases the proportion of heavy weight Priority Mail pieces and, therefore, the proportion of parcel shape and outside items, will this change in mail mix alter Priority Mail costs? Please explain fully.
- b. If your response to part a. was in the affirmative, did you make any attempt to adjust Priority Mail costs to reflect this changed mail mix? If so, please include in your response a detailed discussions to how you adjusted the cost separately for Priority Mail originating and destinating outside the PMPC network, originating outside the PMPC network and destinating inside the PMPC network, originating inside the PMPC network and destinating outside the PMPC network, and originating and destinating inside the PMPC network. Please show your calculations separately for each mailflow. Include in your response how you treated the PMPC costs elements provided in response to UPS/USPS-T33-45. If you did not make such adjustments, please explain fully why not.

Response:

- (a) and (b) In connection with its proposal to increase Priority Mail rates, the Postal Service did not submit any data showing separately the cost of handling Priority Mail parcels and outsides, *vis-a-vis* the cost of handling Priority Mail "non-parcels" (*i.e.*, letters, if any, and flats). However, testimony of UPS witness Sellick (UPS-T-2) claims that Priority Mail parcels have a unit cost that averages 19.5 cents more than non-parcels. That testimony was submitted on the same day as my testimony.
- UPS asserts that within Priority Mail, costs should be redistributed with the cost of non-parcels (most of which presumably weigh 2 pounds or

Response of Dr. John Haldi to USPS/NDMS-T2-23

Page 2 of 2

less) reduced, and the cost of parcels increased. The testimony of UPS witness Luciani includes the following statement (UPS-T-4, page 44, lines 9-16):

The 2.0 cents per pound adder for non-transportation costs in the Priority Mail rate design becomes 4.0 cents per pound with the contingency allowance and the institutional cost markup included. USPS-33N. This adder yields an additional 9.3 cents per piece in the rates charged for the average Priority Mail parcel in comparison to the average Priority Mail flat (4.0 cents per pound multiplied by the 2.32 pound weight difference between parcels and flats). This additional charge is significantly less than the 19.5 cents per piece mail processing cost difference between flats and parcels

For Priority Mail pieces weighing 6- to 70-pounds, the Postal Service and I project TYAR volumes of 46,140,703 and 46,757,467 pieces, respectively, using my alternate projection methodology in each case. The difference amounts to 616,764 pieces. At an additional cost of 19.5 cents per piece, total costs would increase by \$120,269, or \$121,472 including contingency. This is an increase of 0.0057 percent over my projected total cost of \$2,141,759,376, including contingency. My testimony did not attempt to adjust Priority Mail costs to reflect this changed mail mix.

Response of Dr. John Haldi to USPS/NDMS-T2-24
Page 1 of 1

USPS/NDMS-T2-24

Please refer to your testimony at page 22, lines 15 through 17, where you state that the current rates "are heavily weighted **against** heavier-weight zoned parcels, most especially in Zone L,1,2,3, Zone 4, and Zone 5." [Emphasis original.] Please also refer to your testimony at page 19 where you note that the Postal Service's proposed rates demonstrate that "invariably the **highest percentage increases are reserved for weights above 20 pounds shipped to Zones 6, 7 and 8.**" [Emphasis original.] Please confirm that the zones which you indicate have been most "heavily" targeted for increases by the Postal Service in this docket are not the zones most "heavily" targeted by the Commission's rate design in Docket No. R94-1. If you cannot confirm, please explain fully.

Response:

Confirmed. The Postal Service has requested Priority Mail rates in this docket which would disproportionately raise rates for mailpieces above 20 pounds sent to Zones 6, 7 and 8. At the same time, however, these proposed rates do not mitigate the effects of the Docket No. R94-1 rate increases to Zones L,1,2,3, Zone 4, and Zone 5. Instead, they would raise those rates even further. Under the Postal Service's proposal, heavyweight Priority Mail's burden of enabling lower-than-indicated rates for 2-pound-and-under Priority Mail will therefore be spread more evenly across all of the zoned rate cells.

Response of Dr. John Haldi to USPS/NDMS-T2-25
Page 1 of 3

USPS/NDMS-T2-25

Please refer to your testimony at page 23, line 6, where you state that the data presented by you in Table 2 "indicate that rates affect shippers' selection of services from the Postal Service."

- a. Please provide any and all analyses that you have performed of the relative rate changes experienced by shippers sending items weighing less than and more than five pounds via services other than the Postal Service.
- b. If you are unable to provide information in response to part a, please explain how you were able to determine that rate changes by competitors of the Postal Service did not influence the growth rate differences you have observed.

Response:

- (a) I have not analyzed relative rate changes experienced by shippers over any time period such as, for example, from the Base Year in Docket No. R94-1 (FY93) to the Base Year in Docket No. R97-1 (FY96). I have, however, compared proposed Priority Mail rates with the published rates of the Postal Service's principal competitors. That comparison is attached.¹ It is commonly accepted that published rates are discounted, sometimes significantly, to regular shippers. Following are some highlights of this comparison.

- The unzoned 2 and 3 pound Priority Mail rate are lower, to all zones, than all competitors, including the UPS 3-day select rate.

¹ The sources for the attached tables are: (1) *FedEx Service Guide*, Rev. 7/97, Federal Express Corporation (effective July 1, 1997); *UPS Rate Chart*, Rev. 2/97, United Parcel Service (effective February 1, 1997); and "Airborne Express Rate Sheet for U.S. and Canadian Shipments," Airborne Express, June 5, 1997.

Response of Dr. John Haldi to USPS/NDMS-T2-25

Page 2 of 3

- The unzoned 2, 3, 4 and 5 pound Priority Mail rates are substantially lower, to all zones (including zone 2) than the 2-day rates of every competitor listed.
 - For parcels in excess of 18 pounds, **UPS 3-day select** published rates are **less than** Priority Mail rates to all zones beyond zone 3. The heavier the weight, the greater the rate difference. For example, a 70-pound package to zone 8 costs \$15.40 more via Priority Mail than via UPS 3-day select.
 - In comparison with **FedEx** and **UPS** published **2-day service**, Priority Mail zoned rates are generally lower to all zones, but the competitive rate advantage generally diminishes as weight increases. Discounting may eliminate Priority Mail's rate advantage altogether. (See my response to USPS/NDMS-T2-29 for further discussion on this point).
 - **Airborne's** published **2-day** rate is unzoned, hence Airborne is not competitive for close-in zones, while for packages in excess of 23 pounds to zone 8, Airborne's published 2-day rate is **actually less than** the Priority Mail rate.
- (b) The comparison of existing published rates with proposed Priority Mail rates is generally similar to that which I observed in Docket No. R94-1. With moderate discounting, Priority Mail's competitive advantage with published rates easily disappears or is reduced to a comparatively small rate advantage. Since Priority

Response of Dr. John Haldi to USPS/NDMS-T2-25
Page 3 of 3

Mail provides lackluster, inconsistent performance and a distinctly inferior quality of service (see my testimony at pages 69-70), shippers seeking reliable expedited delivery have little reason to use Priority Mail, except for dropshipments to SCFs.

Comparison of Proposed Priority Mail Rates with Other Rates
Zone 2 (51 to 150 miles)

Attachment to USPS/NDMS-T2-25

Weight Not Over (pounds)	1	2	3	4	5	6		7		8		9		10		11		12		13	
	Priority Mail Proposed	FedEx 2Day	UPS 2nd Day Air	UPS 3 Day Select	Airborne Second Day	FedEx 2Day Diff. - PM less FedEx	% Difference	UPS 2nd Day Air Diff. - PM less UPS	% Difference	UPS 3 Day Select Diff. - PM less UPS	% Difference	Airborne Second Day Diff. - PM less Airb.	% Difference								
2	\$3.20	\$7.25	\$6.50	\$4.60	\$7.75	(\$4.05)	-55.86%	(\$3.30)	-50.77%	(\$1.40)	-30.43%	(\$4.55)	-58.71%								
3	4.40	7.75	7.00	5.00	8.50	(3.35)	-43.23%	(2.60)	-37.14%	(0.60)	-12.00%	(4.10)	-48.24%								
4	5.50	8.25	7.50	5.40	9.00	(2.75)	-33.33%	(2.00)	-26.67%	0.10	1.85%	(3.50)	-38.89%								
5	6.60	9.00	8.00	5.70	9.75	(2.40)	-26.67%	(1.40)	-17.50%	0.90	15.79%	(3.15)	-32.31%								
6	6.75	9.75	8.75	6.10	11.00	(3.00)	-30.77%	(2.00)	-22.86%	0.65	10.66%	(4.25)	-38.64%								
7	7.05	10.25	9.25	6.50	12.50	(3.20)	-31.22%	(2.20)	-23.78%	0.55	8.46%	(5.45)	-43.60%								
8	7.35	11.00	9.75	6.90	13.75	(3.65)	-33.18%	(2.40)	-24.62%	0.45	6.52%	(6.40)	-46.55%								
9	7.65	11.50	10.25	7.30	15.00	(3.85)	-33.48%	(2.60)	-25.37%	0.35	4.79%	(7.35)	-49.00%								
10	8.10	12.00	10.75	7.70	16.00	(3.90)	-32.50%	(2.65)	-24.65%	0.40	5.19%	(7.90)	-49.38%								
11	8.55	12.75	11.25	8.10	17.50	(4.20)	-32.94%	(2.70)	-24.00%	0.45	5.56%	(8.95)	-51.14%								
12	9.00	13.25	12.00	8.50	18.75	(4.25)	-32.08%	(3.00)	-25.00%	0.50	5.88%	(9.75)	-52.00%								
13	9.45	14.00	12.75	8.90	20.25	(4.55)	-32.50%	(3.30)	-25.88%	0.55	6.18%	(10.80)	-53.33%								
14	9.90	14.75	13.25	9.30	21.50	(4.85)	-32.88%	(3.35)	-25.28%	0.60	6.45%	(11.60)	-53.95%								
15	10.35	15.25	13.75	9.70	22.75	(4.90)	-32.13%	(3.40)	-24.73%	0.65	6.70%	(12.40)	-54.51%								
16	10.80	15.75	14.25	10.10	24.00	(4.95)	-31.43%	(3.45)	-24.21%	0.70	6.93%	(13.20)	-55.00%								
17	11.25	16.00	14.75	10.50	25.00	(4.75)	-29.69%	(3.50)	-23.73%	0.75	7.14%	(13.75)	-55.00%								
18	11.70	16.50	15.25	10.90	26.00	(4.80)	-29.09%	(3.55)	-23.28%	0.80	7.34%	(14.30)	-55.00%								
19	12.15	16.75	15.75	11.30	27.00	(4.60)	-27.46%	(3.60)	-22.86%	0.85	7.52%	(14.85)	-55.00%								
20	12.55	17.25	16.25	11.70	28.00	(4.70)	-27.25%	(3.70)	-22.77%	0.85	7.26%	(15.45)	-55.18%								
21	12.95	17.50	16.75	12.10	29.00	(4.55)	-26.00%	(3.80)	-22.69%	0.85	7.02%	(16.05)	-55.34%								
22	13.35	18.00	17.25	12.50	30.00	(4.65)	-25.83%	(3.90)	-22.61%	0.85	6.80%	(16.65)	-55.50%								
23	13.75	18.25	17.75	12.90	31.00	(4.50)	-24.66%	(4.00)	-22.54%	0.85	6.59%	(17.25)	-55.65%								
24	14.15	18.75	18.25	13.30	32.00	(4.60)	-24.53%	(4.10)	-22.47%	0.85	6.39%	(17.85)	-55.78%								
25	14.55	19.00	18.75	13.80	33.00	(4.45)	-23.42%	(4.20)	-22.40%	0.75	5.43%	(18.45)	-55.91%								
26	14.95	19.50	19.25	14.20	34.00	(4.55)	-23.33%	(4.30)	-22.34%	0.75	5.28%	(19.05)	-56.03%								
27	15.35	19.75	20.00	14.60	35.00	(4.40)	-22.28%	(4.65)	-23.25%	0.75	5.14%	(19.65)	-56.14%								
28	15.75	20.25	20.75	15.00	36.00	(4.50)	-22.22%	(5.00)	-24.10%	0.75	5.00%	(20.25)	-56.25%								
29	16.15	20.50	21.25	15.40	37.00	(4.35)	-21.22%	(5.10)	-24.00%	0.75	4.87%	(20.85)	-56.35%								
30	16.40	21.00	21.75	15.80	38.00	(4.60)	-21.90%	(5.35)	-24.60%	0.60	3.80%	(21.60)	-56.84%								
31	16.85	21.50	22.25	16.20	39.00	(4.65)	-21.63%	(5.40)	-24.27%	0.65	4.01%	(22.15)	-56.79%								
32	17.30	22.00	22.75	16.60	40.00	(4.70)	-21.36%	(5.45)	-23.96%	0.70	4.22%	(22.70)	-56.75%								
33	17.75	22.50	23.25	17.00	41.00	(4.75)	-21.11%	(5.50)	-23.66%	0.75	4.41%	(23.25)	-56.71%								
34	18.25	23.00	23.75	17.40	42.00	(4.75)	-20.65%	(5.50)	-23.16%	0.85	4.89%	(23.75)	-56.55%								
35	18.70	23.50	24.25	17.80	43.00	(4.80)	-20.43%	(5.55)	-22.89%	0.90	5.06%	(24.30)	-56.51%								
36	19.15	24.00	24.75	18.20	44.00	(4.85)	-20.21%	(5.60)	-22.63%	0.95	5.22%	(24.85)	-56.48%								
37	19.60	24.50	25.25	18.60	45.00	(4.90)	-20.00%	(5.65)	-22.38%	1.00	5.38%	(25.40)	-56.44%								
38	20.05	25.00	25.75	19.00	46.00	(4.95)	-19.80%	(5.70)	-22.14%	1.05	5.53%	(25.95)	-56.41%								
39	20.55	25.75	26.50	19.40	47.00	(5.20)	-20.19%	(5.95)	-22.45%	1.15	5.93%	(26.45)	-56.28%								
40	21.00	26.25	27.25	19.80	48.00	(5.25)	-20.00%	(6.25)	-22.94%	1.20	6.06%	(27.00)	-56.25%								

**Comparison of Proposed Priority Mail Rates with Other Rates
Zone 2 (51 to 150 miles)**

Attachment to USPS/NDMS-T2-25

Weight Not Over (pounds)	1	2	3	4	5	6		7		8		9		10		11		12		13	
	Priority Mail Proposed	FedEx 2Day	UPS 2nd Day Air	UPS 3 Day Select	Airborne Second Day	FedEx 2Day Diff. - PM less FedEx % Difference		UPS 2nd Day Air Diff. - PM less UPS % Difference		UPS 3 Day Select Diff. - PM less UPS % Difference		UPS 3 Day Select Diff. - PM less UPS % Difference		Airborne Second Day Diff. - PM less Airb. % Difference		Airborne Second Day Diff. - PM less Airb. % Difference		Airborne Second Day Diff. - PM less Airb. % Difference			
41	21.45	26.75	28.00	20.20	49.00	(5.30)	-19.81%	(6.55)	-23.39%	1.25	6.19%	(27.55)	-56.22%								
42	21.90	27.25	28.50	20.60	50.00	(5.35)	-19.63%	(6.60)	-23.16%	1.30	6.31%	(28.10)	-56.20%								
43	22.35	28.00	29.00	21.00	51.00	(5.65)	-20.18%	(6.65)	-22.93%	1.35	6.43%	(28.65)	-56.18%								
44	22.85	28.50	29.50	21.40	52.00	(5.65)	-19.82%	(6.65)	-22.54%	1.45	6.78%	(29.15)	-56.06%								
45	23.30	29.00	30.00	21.80	53.00	(5.70)	-19.66%	(6.70)	-22.33%	1.50	6.88%	(29.70)	-56.04%								
46	23.75	29.50	30.50	22.20	54.00	(5.75)	-19.49%	(6.75)	-22.13%	1.55	6.98%	(30.25)	-56.02%								
47	24.20	30.00	31.00	22.60	55.00	(5.80)	-19.33%	(6.80)	-21.94%	1.60	7.08%	(30.80)	-56.00%								
48	24.65	30.75	31.75	23.00	56.00	(6.10)	-19.84%	(7.10)	-22.36%	1.65	7.17%	(31.35)	-55.98%								
49	25.15	31.25	32.25	23.40	57.00	(6.10)	-19.52%	(7.10)	-22.02%	1.75	7.48%	(31.85)	-55.88%								
50	25.60	31.75	32.75	23.80	58.00	(6.15)	-19.37%	(7.15)	-21.83%	1.80	7.56%	(32.40)	-55.86%								
51	26.05	32.25	33.25	24.20	59.00	(6.20)	-19.22%	(7.20)	-21.65%	1.85	7.64%	(32.95)	-55.85%								
52	26.50	32.75	33.75	24.60	60.00	(6.25)	-19.08%	(7.25)	-21.48%	1.90	7.72%	(33.50)	-55.83%								
53	26.95	33.25	34.50	25.00	61.00	(6.30)	-18.95%	(7.55)	-21.88%	1.95	7.80%	(34.05)	-55.82%								
54	27.45	33.75	35.00	25.40	62.00	(6.30)	-18.67%	(7.55)	-21.57%	2.05	8.07%	(34.55)	-55.73%								
55	27.90	34.25	35.50	25.80	63.00	(6.35)	-18.54%	(7.60)	-21.41%	2.10	8.14%	(35.10)	-55.71%								
56	28.35	34.75	36.00	26.20	64.00	(6.40)	-18.42%	(7.65)	-21.25%	2.15	8.21%	(35.65)	-55.70%								
57	28.80	35.25	36.50	26.60	65.00	(6.45)	-18.30%	(7.70)	-21.10%	2.20	8.27%	(36.20)	-55.69%								
58	29.25	35.75	37.00	27.00	66.00	(6.50)	-18.18%	(7.75)	-20.95%	2.25	8.33%	(36.75)	-55.68%								
59	29.75	36.25	37.50	27.40	67.00	(6.50)	-17.93%	(7.75)	-20.67%	2.35	8.58%	(37.25)	-55.60%								
60	30.20	36.75	38.00	27.80	68.00	(6.55)	-17.82%	(7.80)	-20.53%	2.40	8.63%	(37.80)	-55.59%								
61	30.65	37.50	38.75	28.20	69.00	(6.85)	-18.27%	(8.10)	-20.90%	2.45	8.69%	(38.35)	-55.58%								
62	31.10	38.00	39.50	28.60	70.00	(6.90)	-18.16%	(8.40)	-21.27%	2.50	8.74%	(38.90)	-55.57%								
63	31.55	38.50	40.25	29.00	71.00	(6.95)	-18.05%	(8.70)	-21.61%	2.55	8.79%	(39.45)	-55.56%								
64	32.05	39.00	40.75	29.40	72.00	(6.95)	-17.82%	(8.70)	-21.35%	2.65	9.01%	(39.95)	-55.49%								
65	32.50	39.50	41.25	29.80	73.00	(7.00)	-17.72%	(8.75)	-21.21%	2.70	9.06%	(40.50)	-55.48%								
66	32.95	40.25	41.75	30.30	74.10	(7.30)	-18.14%	(8.80)	-21.08%	2.65	8.75%	(41.15)	-55.53%								
67	33.40	40.75	42.25	30.70	75.20	(7.35)	-18.04%	(8.85)	-20.95%	2.70	8.79%	(41.80)	-55.59%								
68	33.85	41.25	42.75	31.10	76.30	(7.40)	-17.94%	(8.90)	-20.82%	2.75	8.84%	(42.45)	-55.64%								
69	34.35	41.75	43.25	31.50	77.40	(7.40)	-17.72%	(8.90)	-20.58%	2.85	9.05%	(43.05)	-55.62%								
70	34.80	42.25	43.75	31.90	78.50	(7.45)	-17.63%	(8.95)	-20.46%	2.90	9.09%	(43.70)	-55.67%								

**Comparison of Proposed Priority Mail Rates with Other Rates
Zone 3 (151 - 300 miles)**

Attachment to USPS/NDMS-T2-25

Weight Not Over (pounds)	1	2	3	4	5	6		7		8		9		10		11		12		13	
	Priority Mail Proposed	FedEx 2Day	UPS 2nd Day Air	UPS 3 Day Select	Airborne Second Day	FedEx 2Day Diff. - PM less FedEx	% Difference	UPS 2nd Day Air Diff. - PM less UPS	% Difference	UPS 3 Day Select Diff. - PM less UPS	% Difference	Airborne Second Day Diff. - PM less Airb.	% Difference								
2	\$3.20	\$7.75	\$7.00	\$4.80	\$7.75	(\$4.55)	-58.71%	(\$3.80)	-54.29%	(\$1.60)	-33.33%	(\$4.55)	-58.71%								
3	4.40	8.25	7.50	5.30	8.50	(3.85)	-46.67%	(3.10)	-41.33%	(0.90)	-16.98%	(4.10)	-48.24%								
4	5.50	9.00	8.00	5.80	9.00	(3.50)	-38.89%	(2.50)	-31.25%	(0.30)	-5.17%	(3.50)	-38.89%								
5	6.60	9.75	8.75	6.30	9.75	(3.15)	-32.31%	(2.15)	-24.57%	0.30	4.76%	(3.15)	-32.31%								
6	6.75	10.75	9.50	6.80	11.00	(4.00)	-37.21%	(2.75)	-28.95%	(0.05)	-0.74%	(4.25)	-38.64%								
7	7.05	11.50	10.25	7.30	12.50	(4.45)	-38.70%	(3.20)	-31.22%	(0.25)	-3.42%	(5.45)	-43.60%								
8	7.35	12.25	11.00	7.80	13.75	(4.90)	-40.00%	(3.65)	-33.18%	(0.45)	-5.77%	(6.40)	-46.55%								
9	7.65	13.00	11.75	8.30	15.00	(5.35)	-41.15%	(4.10)	-34.89%	(0.65)	-7.83%	(7.35)	-49.00%								
10	8.10	13.75	12.50	8.80	16.00	(5.65)	-41.09%	(4.40)	-35.20%	(0.70)	-7.95%	(7.90)	-49.38%								
11	8.55	14.50	13.25	9.30	17.50	(5.95)	-41.03%	(4.70)	-35.47%	(0.75)	-8.06%	(8.95)	-51.14%								
12	9.00	15.25	14.00	9.80	18.75	(6.25)	-40.98%	(5.00)	-35.71%	(0.80)	-8.16%	(9.75)	-52.00%								
13	9.45	15.75	14.50	10.30	20.25	(6.30)	-40.00%	(5.05)	-34.83%	(0.85)	-8.25%	(10.80)	-53.33%								
14	9.90	16.75	15.00	10.80	21.50	(6.85)	-40.90%	(5.10)	-34.00%	(0.90)	-8.33%	(11.60)	-53.95%								
15	10.35	17.25	15.50	11.30	22.75	(6.90)	-40.00%	(5.15)	-33.23%	(0.95)	-8.41%	(12.40)	-54.51%								
16	10.80	17.75	16.25	11.80	24.00	(6.95)	-39.15%	(5.45)	-33.54%	(1.00)	-8.47%	(13.20)	-55.00%								
17	11.25	18.25	17.00	12.20	25.00	(7.00)	-38.36%	(5.75)	-33.82%	(0.95)	-7.79%	(13.75)	-55.00%								
18	11.70	18.75	17.50	12.70	26.00	(7.05)	-37.60%	(5.80)	-33.14%	(1.00)	-7.87%	(14.30)	-55.00%								
19	12.15	19.00	18.00	13.20	27.00	(6.85)	-36.05%	(5.85)	-32.50%	(1.05)	-7.95%	(14.85)	-55.00%								
20	12.55	19.50	18.75	13.70	28.00	(6.95)	-35.64%	(6.20)	-33.07%	(1.15)	-8.39%	(15.45)	-55.18%								
21	12.95	20.00	19.50	14.20	29.00	(7.05)	-35.25%	(6.55)	-33.59%	(1.25)	-8.80%	(16.05)	-55.34%								
22	13.35	20.50	20.25	14.70	30.00	(7.15)	-34.88%	(6.90)	-34.07%	(1.35)	-9.18%	(16.65)	-55.50%								
23	13.75	21.00	20.75	15.20	31.00	(7.25)	-34.52%	(7.00)	-33.73%	(1.45)	-9.54%	(17.25)	-55.65%								
24	14.15	21.50	21.50	15.70	32.00	(7.35)	-34.19%	(7.35)	-34.19%	(1.55)	-9.87%	(17.85)	-55.78%								
25	14.55	22.00	22.00	16.20	33.00	(7.45)	-33.86%	(7.45)	-33.86%	(1.65)	-10.19%	(18.45)	-55.91%								
26	14.95	22.50	22.50	16.70	34.00	(7.55)	-33.56%	(7.55)	-33.56%	(1.75)	-10.48%	(19.05)	-56.03%								
27	15.35	22.75	23.25	17.20	35.00	(7.40)	-32.53%	(7.90)	-33.98%	(1.85)	-10.76%	(19.65)	-56.14%								
28	15.75	23.25	24.00	17.60	36.00	(7.50)	-32.26%	(8.25)	-34.38%	(1.85)	-10.51%	(20.25)	-56.25%								
29	16.15	23.75	24.50	18.10	37.00	(7.60)	-32.00%	(8.35)	-34.08%	(1.95)	-10.77%	(20.85)	-56.35%								
30	16.40	24.25	25.25	18.60	38.00	(7.85)	-32.37%	(8.85)	-35.05%	(2.20)	-11.83%	(21.60)	-56.84%								
31	16.85	24.75	26.00	19.10	39.00	(7.90)	-31.92%	(9.15)	-35.19%	(2.25)	-11.78%	(22.15)	-56.79%								
32	17.30	25.50	26.50	19.60	40.00	(8.20)	-32.16%	(9.20)	-34.72%	(2.30)	-11.73%	(22.70)	-56.75%								
33	17.75	26.00	27.00	20.10	41.00	(8.25)	-31.73%	(9.25)	-34.26%	(2.35)	-11.69%	(23.25)	-56.71%								
34	18.25	26.75	27.75	20.60	42.00	(8.50)	-31.78%	(9.50)	-34.23%	(2.35)	-11.41%	(23.75)	-56.55%								
35	18.70	27.25	28.50	21.10	43.00	(8.55)	-31.38%	(9.80)	-34.39%	(2.40)	-11.37%	(24.30)	-56.51%								
36	19.15	28.00	29.25	21.60	44.00	(8.85)	-31.61%	(10.10)	-34.53%	(2.45)	-11.34%	(24.85)	-56.48%								
37	19.60	28.50	29.75	22.10	45.00	(8.90)	-31.23%	(10.15)	-34.12%	(2.50)	-11.31%	(25.40)	-56.44%								
38	20.05	29.25	30.25	22.60	46.00	(9.20)	-31.45%	(10.20)	-33.72%	(2.55)	-11.28%	(25.95)	-56.41%								
39	20.55	29.75	30.75	23.00	47.00	(9.20)	-30.92%	(10.20)	-33.17%	(2.45)	-10.65%	(26.45)	-56.28%								
40	21.00	30.50	31.50	23.50	48.00	(9.50)	-31.15%	(10.50)	-33.33%	(2.50)	-10.64%	(27.00)	-56.25%								

**Comparison of Proposed Priority Mail Rates with Other Rates
Zone 3 (151 - 300 miles)**

Attachment to USPS/NDMS-T2-25

Weight Not Over (pounds)	1	2	3	4	5	6		7		8		9		10		11		12		13	
	Priority Mail Proposed	FedEx 2Day	UPS 2nd Day Air	UPS 3 Day Select	Airborne Second Day	FedEx 2Day Diff. - PM less FedEx	% Difference	UPS 2nd Day Air Diff. - PM less UPS	% Difference	UPS 3 Day Select Diff. - PM less UPS	% Difference	Airborne Second Day Diff. - PM less Airb.	% Difference								
41	21.45	31.25	32.25	24.00	49.00	(9.80)	-31.36%	(10.80)	-33.49%	(2.55)	-10.62%	(27.55)	-56.22%								
42	21.90	31.75	33.00	24.50	50.00	(9.85)	-31.02%	(11.10)	-33.64%	(2.60)	-10.61%	(28.10)	-56.20%								
43	22.35	32.50	33.75	25.00	51.00	(10.15)	-31.23%	(11.40)	-33.78%	(2.65)	-10.60%	(28.65)	-56.18%								
44	22.85	33.00	34.25	25.50	52.00	(10.15)	-30.76%	(11.40)	-33.28%	(2.65)	-10.39%	(29.15)	-56.06%								
45	23.30	33.75	35.00	26.00	53.00	(10.45)	-30.96%	(11.70)	-33.43%	(2.70)	-10.38%	(29.70)	-56.04%								
46	23.75	34.25	35.50	26.50	54.00	(10.50)	-30.66%	(11.75)	-33.10%	(2.75)	-10.38%	(30.25)	-56.02%								
47	24.20	35.00	36.25	27.00	55.00	(10.80)	-30.86%	(12.05)	-33.24%	(2.80)	-10.37%	(30.80)	-56.00%								
48	24.65	35.50	37.00	27.50	56.00	(10.85)	-30.56%	(12.35)	-33.38%	(2.85)	-10.36%	(31.35)	-55.98%								
49	25.15	36.25	37.75	28.00	57.00	(11.10)	-30.62%	(12.60)	-33.38%	(2.85)	-10.18%	(31.85)	-55.88%								
50	25.60	36.75	38.25	28.50	58.00	(11.15)	-30.34%	(12.65)	-33.07%	(2.90)	-10.18%	(32.40)	-55.86%								
51	26.05	37.50	38.75	29.00	59.00	(11.45)	-30.53%	(12.70)	-32.77%	(2.95)	-10.17%	(32.95)	-55.85%								
52	26.50	38.00	39.50	29.40	60.00	(11.50)	-30.26%	(13.00)	-32.91%	(2.90)	-9.86%	(33.50)	-55.83%								
53	26.95	38.75	40.25	29.90	61.00	(11.80)	-30.45%	(13.30)	-33.04%	(2.95)	-9.87%	(34.05)	-55.82%								
54	27.45	39.25	41.00	30.40	62.00	(11.80)	-30.06%	(13.55)	-33.05%	(2.95)	-9.70%	(34.55)	-55.73%								
55	27.90	40.00	41.50	30.90	63.00	(12.10)	-30.25%	(13.60)	-32.77%	(3.00)	-9.71%	(35.10)	-55.71%								
56	28.35	40.50	42.00	31.40	64.00	(12.15)	-30.00%	(13.65)	-32.50%	(3.05)	-9.71%	(35.65)	-55.70%								
57	28.80	41.25	42.75	31.90	65.00	(12.45)	-30.18%	(13.95)	-32.63%	(3.10)	-9.72%	(36.20)	-55.69%								
58	29.25	41.75	43.25	32.40	66.00	(12.50)	-29.94%	(14.00)	-32.37%	(3.15)	-9.72%	(36.75)	-55.68%								
59	29.75	42.25	43.75	32.90	67.00	(12.50)	-29.59%	(14.00)	-32.00%	(3.15)	-9.57%	(37.25)	-55.60%								
60	30.20	43.00	44.50	33.40	68.00	(12.80)	-29.77%	(14.30)	-32.13%	(3.20)	-9.58%	(37.80)	-55.59%								
61	30.65	43.50	45.00	33.90	69.00	(12.85)	-29.54%	(14.35)	-31.89%	(3.25)	-9.59%	(38.35)	-55.58%								
62	31.10	44.25	45.75	34.40	70.00	(13.15)	-29.72%	(14.65)	-32.02%	(3.30)	-9.59%	(38.90)	-55.57%								
63	31.55	44.75	46.50	34.90	71.00	(13.20)	-29.50%	(14.95)	-32.15%	(3.35)	-9.60%	(39.45)	-55.56%								
64	32.05	45.50	47.25	35.30	72.00	(13.45)	-29.56%	(15.20)	-32.17%	(3.25)	-9.21%	(39.95)	-55.49%								
65	32.50	46.25	48.00	35.80	73.00	(13.75)	-29.73%	(15.50)	-32.29%	(3.30)	-9.22%	(40.50)	-55.48%								
66	32.95	46.75	48.50	36.30	74.10	(13.80)	-29.52%	(15.55)	-32.06%	(3.35)	-9.23%	(41.15)	-55.53%								
67	33.40	47.50	49.25	36.80	75.20	(14.10)	-29.68%	(15.85)	-32.18%	(3.40)	-9.24%	(41.80)	-55.59%								
68	33.85	48.00	49.75	37.30	76.30	(14.15)	-29.48%	(15.90)	-31.96%	(3.45)	-9.25%	(42.45)	-55.64%								
69	34.35	48.75	50.50	37.80	77.40	(14.40)	-29.54%	(16.15)	-31.98%	(3.45)	-9.13%	(43.05)	-55.62%								
70	34.80	49.50	51.25	38.30	78.50	(14.70)	-29.70%	(16.45)	-32.10%	(3.50)	-9.14%	(43.70)	-55.67%								

**Comparison of Proposed Priority Mail Rates with Other Rates
Zone 4 (301 - 600 miles)**

Attachment to USPS/NDMS-T2-25

Weight Not Over (pounds)	1	2	3	4	5	6		7		8		9		10		11		12		13	
	Priority Mail Proposed	FedEx 2Day	UPS 2nd Day Air	UPS 3 Day Select	Airborne Second Day	FedEx 2Day Diff. - PM less FedEx	% Difference	UPS 2nd Day Air Diff. - PM less UPS	% Difference	UPS 3 Day Select Diff. - PM less UPS	% Difference	Airborne Second Day Diff. - PM less Airb.	% Difference								
2	\$3.20	\$8.25	\$7.50	\$5.10	\$7.75	(\$5.05)	-61.21%	(\$4.30)	-57.33%	(\$1.90)	-37.25%	(\$4.55)	-58.71%								
3	4.40	9.25	8.50	5.80	8.50	(4.85)	-52.43%	(4.10)	-48.24%	(1.40)	-24.14%	(4.10)	-48.24%								
4	5.50	10.00	9.25	6.40	9.00	(4.50)	-45.00%	(3.75)	-40.54%	(0.90)	-14.06%	(3.50)	-38.89%								
5	6.60	11.00	10.00	6.90	9.75	(4.40)	-40.00%	(3.40)	-34.00%	(0.30)	-4.35%	(3.15)	-32.31%								
6	6.90	12.00	10.75	7.50	11.00	(5.10)	-42.50%	(3.85)	-35.81%	(0.60)	-8.00%	(4.10)	-37.27%								
7	7.60	13.25	11.75	8.10	12.50	(5.65)	-42.64%	(4.15)	-35.32%	(0.50)	-6.17%	(4.90)	-39.20%								
8	8.30	14.00	12.75	8.70	13.75	(5.70)	-40.71%	(4.45)	-34.90%	(0.40)	-4.60%	(5.45)	-39.64%								
9	9.00	15.25	13.75	9.30	15.00	(6.25)	-40.98%	(4.75)	-34.55%	(0.30)	-3.23%	(6.00)	-40.00%								
10	9.75	16.00	14.75	9.90	16.00	(6.25)	-39.06%	(5.00)	-33.90%	(0.15)	-1.52%	(6.25)	-39.06%								
11	10.45	17.25	15.50	10.50	17.50	(6.80)	-39.42%	(5.05)	-32.58%	(0.05)	-0.48%	(7.05)	-40.29%								
12	11.15	18.00	16.25	11.10	18.75	(6.85)	-38.06%	(5.10)	-31.38%	0.05	0.45%	(7.60)	-40.53%								
13	11.85	19.00	17.00	11.70	20.25	(7.15)	-37.63%	(5.15)	-30.29%	0.15	1.28%	(8.40)	-41.48%								
14	12.60	20.25	18.00	12.30	21.50	(7.65)	-37.78%	(5.40)	-30.00%	0.30	2.44%	(8.90)	-41.40%								
15	13.30	21.00	18.75	12.90	22.75	(7.70)	-36.67%	(5.45)	-29.07%	0.40	3.10%	(9.45)	-41.54%								
16	14.00	21.50	19.75	13.50	24.00	(7.50)	-34.88%	(5.75)	-29.11%	0.50	3.70%	(10.00)	-41.67%								
17	14.75	22.25	20.75	14.10	25.00	(7.50)	-33.71%	(6.00)	-28.92%	0.65	4.61%	(10.25)	-41.00%								
18	15.45	22.75	21.50	14.70	26.00	(7.30)	-32.09%	(6.05)	-28.14%	0.75	5.10%	(10.55)	-40.58%								
19	16.15	23.25	22.25	15.30	27.00	(7.10)	-30.54%	(6.10)	-27.42%	0.85	5.56%	(10.85)	-40.19%								
20	16.85	24.00	23.00	15.90	28.00	(7.15)	-29.79%	(6.15)	-26.74%	0.95	5.97%	(11.15)	-39.82%								
21	17.60	24.50	24.00	16.50	29.00	(6.90)	-28.16%	(6.40)	-26.67%	1.10	6.67%	(11.40)	-39.31%								
22	18.30	25.00	24.75	17.10	30.00	(6.70)	-26.80%	(6.45)	-26.06%	1.20	7.02%	(11.70)	-39.00%								
23	19.00	25.75	25.50	17.60	31.00	(6.75)	-26.21%	(6.50)	-25.49%	1.40	7.95%	(12.00)	-38.71%								
24	19.75	26.25	26.25	18.20	32.00	(6.50)	-24.76%	(6.50)	-24.76%	1.55	8.52%	(12.25)	-38.28%								
25	20.45	26.75	27.25	18.80	33.00	(6.30)	-23.55%	(6.80)	-24.95%	1.65	8.78%	(12.55)	-38.03%								
26	21.15	27.50	28.00	19.40	34.00	(6.35)	-23.09%	(6.85)	-24.46%	1.75	9.02%	(12.85)	-37.79%								
27	21.85	28.00	28.75	20.00	35.00	(6.15)	-21.96%	(6.90)	-24.00%	1.85	9.25%	(13.15)	-37.57%								
28	22.60	28.50	29.50	20.60	36.00	(5.90)	-20.70%	(6.90)	-23.39%	2.00	9.71%	(13.40)	-37.22%								
29	23.30	29.25	30.25	21.20	37.00	(5.95)	-20.34%	(6.95)	-22.98%	2.10	9.91%	(13.70)	-37.03%								
30	24.00	29.75	31.25	21.80	38.00	(5.75)	-19.33%	(7.25)	-23.20%	2.20	10.09%	(14.00)	-36.84%								
31	24.75	30.75	32.25	22.40	39.00	(6.00)	-19.51%	(7.50)	-23.26%	2.35	10.49%	(14.25)	-36.54%								
32	25.45	31.50	33.00	23.00	40.00	(6.05)	-19.21%	(7.55)	-22.88%	2.45	10.65%	(14.55)	-36.38%								
33	26.15	32.25	33.75	23.60	41.00	(6.10)	-18.91%	(7.60)	-22.52%	2.55	10.81%	(14.85)	-36.22%								
34	26.85	33.00	34.50	24.20	42.00	(6.15)	-18.64%	(7.65)	-22.17%	2.65	10.95%	(15.15)	-36.07%								
35	27.60	33.75	35.25	24.80	43.00	(6.15)	-18.22%	(7.65)	-21.70%	2.80	11.29%	(15.40)	-35.81%								
36	28.30	34.50	36.00	25.40	44.00	(6.20)	-17.97%	(7.70)	-21.39%	2.90	11.42%	(15.70)	-35.68%								
37	29.00	35.25	36.75	26.00	45.00	(6.25)	-17.73%	(7.75)	-21.09%	3.00	11.54%	(16.00)	-35.56%								
38	29.75	36.00	37.75	26.50	46.00	(6.25)	-17.36%	(8.00)	-21.19%	3.25	12.26%	(16.25)	-35.33%								
39	30.45	36.75	38.50	27.10	47.00	(6.30)	-17.14%	(8.05)	-20.91%	3.35	12.36%	(16.55)	-35.21%								
40	31.15	37.50	39.25	27.70	48.00	(6.35)	-16.93%	(8.10)	-20.64%	3.45	12.45%	(16.85)	-35.10%								

**Comparison of Proposed Priority Mail Rates with Other Rates
Zone 4 (301 - 600 miles)**

Attachment to USPS/NDMS-T2-25

Weight Not Over (pounds)	1	2	3	4	5	6		7		8		9		10		11		12		13	
	Priority Mail Proposed	FedEx 2Day	UPS 2nd Day Air	UPS 3 Day Select	Airborne Second Day	FedEx 2Day Diff. - PM less FedEx	% Difference	UPS 2nd Day Air Diff. - PM less UPS	% Difference	UPS 3 Day Select Diff. - PM less UPS	% Difference	Airborne Second Day Diff. - PM less Airb.	% Difference								
41	31.85	38.25	40.00	28.30	49.00	(6.40)	-16.73%	(8.15)	-20.38%	3.55	12.54%	(17.15)	-35.00%								
42	32.60	39.00	40.75	28.90	50.00	(6.40)	-16.41%	(8.15)	-20.00%	3.70	12.80%	(17.40)	-34.80%								
43	33.30	39.75	41.50	29.50	51.00	(6.45)	-16.23%	(8.20)	-19.76%	3.80	12.88%	(17.70)	-34.71%								
44	34.00	40.50	42.25	30.10	52.00	(6.50)	-16.05%	(8.25)	-19.53%	3.90	12.96%	(18.00)	-34.62%								
45	34.75	41.25	43.00	30.70	53.00	(6.50)	-15.76%	(8.25)	-19.19%	4.05	13.19%	(18.25)	-34.43%								
46	35.45	42.00	44.00	31.20	54.00	(6.55)	-15.60%	(8.55)	-19.43%	4.25	13.62%	(18.55)	-34.35%								
47	36.15	42.75	44.75	31.80	55.00	(6.60)	-15.44%	(8.60)	-19.22%	4.35	13.68%	(18.85)	-34.27%								
48	36.85	43.50	45.50	32.40	56.00	(6.65)	-15.29%	(8.65)	-19.01%	4.45	13.73%	(19.15)	-34.20%								
49	37.60	44.25	46.25	33.00	57.00	(6.65)	-15.03%	(8.65)	-18.70%	4.60	13.94%	(19.40)	-34.04%								
50	38.30	45.00	47.00	33.60	58.00	(6.70)	-14.89%	(8.70)	-18.51%	4.70	13.99%	(19.70)	-33.97%								
51	39.00	45.75	47.75	34.20	59.00	(6.75)	-14.75%	(8.75)	-18.32%	4.80	14.04%	(20.00)	-33.90%								
52	39.75	46.50	48.50	34.80	60.00	(6.75)	-14.52%	(8.75)	-18.04%	4.95	14.22%	(20.25)	-33.75%								
53	40.45	47.25	49.25	35.40	61.00	(6.80)	-14.39%	(8.80)	-17.87%	5.05	14.27%	(20.55)	-33.69%								
54	41.15	48.00	50.00	36.00	62.00	(6.85)	-14.27%	(8.85)	-17.70%	5.15	14.31%	(20.85)	-33.63%								
55	41.85	48.75	50.75	36.50	63.00	(6.90)	-14.15%	(8.90)	-17.54%	5.35	14.66%	(21.15)	-33.57%								
56	42.60	49.50	51.50	37.10	64.00	(6.90)	-13.94%	(8.90)	-17.28%	5.50	14.82%	(21.40)	-33.44%								
57	43.30	50.25	52.50	37.70	65.00	(6.95)	-13.83%	(9.20)	-17.52%	5.60	14.85%	(21.70)	-33.38%								
58	44.00	51.00	53.25	38.30	66.00	(7.00)	-13.73%	(9.25)	-17.37%	5.70	14.88%	(22.00)	-33.33%								
59	44.75	51.75	54.00	38.90	67.00	(7.00)	-13.53%	(9.25)	-17.13%	5.85	15.04%	(22.25)	-33.21%								
60	45.45	52.50	55.00	39.50	68.00	(7.05)	-13.43%	(9.55)	-17.36%	5.95	15.06%	(22.55)	-33.16%								
61	46.15	53.25	55.75	40.10	69.00	(7.10)	-13.33%	(9.60)	-17.22%	6.05	15.09%	(22.85)	-33.12%								
62	46.85	54.00	56.50	40.70	70.00	(7.15)	-13.24%	(9.65)	-17.08%	6.15	15.11%	(23.15)	-33.07%								
63	47.60	54.75	57.25	41.30	71.00	(7.15)	-13.06%	(9.65)	-16.86%	6.30	15.25%	(23.40)	-32.96%								
64	48.30	55.50	58.00	41.80	72.00	(7.20)	-12.97%	(9.70)	-16.72%	6.50	15.55%	(23.70)	-32.92%								
65	49.00	56.25	58.75	42.40	73.00	(7.25)	-12.89%	(9.75)	-16.60%	6.60	15.57%	(24.00)	-32.88%								
66	49.75	57.25	59.75	43.00	74.10	(7.50)	-13.10%	(10.00)	-16.74%	6.75	15.70%	(24.35)	-32.86%								
67	50.45	58.00	60.50	43.60	75.20	(7.55)	-13.02%	(10.05)	-16.61%	6.85	15.71%	(24.75)	-32.91%								
68	51.15	58.75	61.50	44.20	76.30	(7.60)	-12.94%	(10.35)	-16.83%	6.95	15.72%	(25.15)	-32.96%								
69	51.85	59.75	62.50	44.80	77.40	(7.90)	-13.22%	(10.65)	-17.04%	7.05	15.74%	(25.55)	-33.01%								
70	52.60	60.50	63.25	45.30	78.50	(7.90)	-13.06%	(10.65)	-16.84%	7.30	16.11%	(25.90)	-32.99%								

**Comparison of Proposed Priority Mail Rates with Other Rates
Zone 5 (601 - 1,000 miles)**

Attachment to USPS/NDMS-T2-25

Weight Not Over (pounds)	1	2	3	4	5	6		7		8		9		10		11		12		13	
	Priority Mail Proposed	FedEx 2Day	UPS 2nd Day Air	UPS 3 Day Select	Airborne Second Day	FedEx 2Day Diff. - PM less FedEx	% Difference	UPS 2nd Day Air Diff. - PM less UPS	% Difference	UPS 3 Day Select Diff. - PM less UPS	% Difference	Airborne Second Day Diff. - PM less Airb.	% Difference								
2	\$3.20	\$8.75	\$8.00	\$5.80	\$7.75	(\$5.55)	-63.43%	(\$4.80)	-60.00%	(\$2.60)	-44.83%	(\$4.55)	-58.71%								
3	4.40	9.75	9.00	6.50	8.50	(5.35)	-54.87%	(4.60)	-51.11%	(2.10)	-32.31%	(4.10)	-48.24%								
4	5.50	11.00	10.00	7.10	9.00	(5.50)	-50.00%	(4.50)	-45.00%	(1.60)	-22.54%	(3.50)	-38.89%								
5	6.60	12.00	11.00	7.70	9.75	(5.40)	-45.00%	(4.40)	-40.00%	(1.10)	-14.29%	(3.15)	-32.31%								
6	7.75	13.25	12.00	8.40	11.00	(5.50)	-41.51%	(4.25)	-35.42%	(0.65)	-7.74%	(3.25)	-29.55%								
7	8.60	14.75	13.25	9.10	12.50	(6.15)	-41.69%	(4.65)	-35.09%	(0.50)	-5.49%	(3.90)	-31.20%								
8	9.45	16.00	14.50	9.80	13.75	(6.55)	-40.94%	(5.05)	-34.83%	(0.35)	-3.57%	(4.30)	-31.27%								
9	10.25	17.50	15.75	10.50	15.00	(7.25)	-41.43%	(5.50)	-34.92%	(0.25)	-2.38%	(4.75)	-31.67%								
10	11.10	18.75	16.75	11.20	16.00	(7.65)	-40.80%	(5.65)	-33.73%	(0.10)	-0.89%	(4.90)	-30.63%								
11	11.90	19.75	17.75	11.80	17.50	(7.85)	-39.75%	(5.85)	-32.96%	0.10	0.85%	(5.60)	-32.00%								
12	12.75	21.00	18.75	12.50	18.75	(8.25)	-39.29%	(6.00)	-32.00%	0.25	2.00%	(6.00)	-32.00%								
13	13.60	22.25	20.00	13.20	20.25	(8.65)	-38.88%	(6.40)	-32.00%	0.40	3.03%	(6.65)	-32.84%								
14	14.40	23.25	21.00	13.90	21.50	(8.85)	-38.06%	(6.60)	-31.43%	0.50	3.60%	(7.10)	-33.02%								
15	15.25	24.50	22.00	14.70	22.75	(9.25)	-37.76%	(6.75)	-30.68%	0.55	3.74%	(7.50)	-32.97%								
16	15.50	25.25	23.00	15.40	24.00	(9.75)	-38.61%	(7.50)	-32.61%	0.10	0.65%	(8.50)	-35.42%								
17	16.30	26.00	24.00	16.10	25.00	(9.70)	-37.31%	(7.70)	-32.08%	0.20	1.24%	(8.70)	-34.80%								
18	17.10	26.75	25.00	16.80	26.00	(9.65)	-36.07%	(7.90)	-31.60%	0.30	1.79%	(8.90)	-34.23%								
19	17.90	27.25	26.00	17.50	27.00	(9.35)	-34.31%	(8.10)	-31.15%	0.40	2.29%	(9.10)	-33.70%								
20	18.70	28.00	27.00	18.20	28.00	(9.30)	-33.21%	(8.30)	-30.74%	0.50	2.75%	(9.30)	-33.21%								
21	18.75	28.75	28.00	18.90	29.00	(10.00)	-34.78%	(9.25)	-33.04%	(0.15)	-0.79%	(10.25)	-35.34%								
22	19.50	29.50	29.00	19.60	30.00	(10.00)	-33.90%	(9.50)	-32.76%	(0.10)	-0.51%	(10.50)	-35.00%								
23	20.25	30.25	30.00	20.20	31.00	(10.00)	-33.06%	(9.75)	-32.50%	0.05	0.25%	(10.75)	-34.68%								
24	21.05	31.00	31.00	20.90	32.00	(9.95)	-32.10%	(9.95)	-32.10%	0.15	0.72%	(10.95)	-34.22%								
25	21.80	31.75	32.00	21.60	33.00	(9.95)	-31.34%	(10.20)	-31.88%	0.20	0.93%	(11.20)	-33.94%								
26	22.55	32.50	33.00	22.30	34.00	(9.95)	-30.62%	(10.45)	-31.67%	0.25	1.12%	(11.45)	-33.68%								
27	23.35	33.00	34.00	22.90	35.00	(9.65)	-29.24%	(10.65)	-31.32%	0.45	1.97%	(11.65)	-33.29%								
28	24.10	33.75	35.00	23.50	36.00	(9.65)	-28.59%	(10.90)	-31.14%	0.60	2.55%	(11.90)	-33.06%								
29	24.90	34.50	36.00	24.20	37.00	(9.60)	-27.83%	(11.10)	-30.83%	0.70	2.89%	(12.10)	-32.70%								
30	25.65	35.25	37.00	24.90	38.00	(9.60)	-27.23%	(11.35)	-30.68%	0.75	3.01%	(12.35)	-32.50%								
31	26.40	36.25	38.00	25.60	39.00	(9.85)	-27.17%	(11.60)	-30.53%	0.80	3.12%	(12.60)	-32.31%								
32	27.20	37.00	38.75	26.30	40.00	(9.80)	-26.49%	(11.55)	-29.81%	0.90	3.42%	(12.80)	-32.00%								
33	27.95	38.00	39.75	27.00	41.00	(10.05)	-26.45%	(11.80)	-29.69%	0.95	3.52%	(13.05)	-31.83%								
34	28.70	38.75	40.50	27.70	42.00	(10.05)	-25.94%	(11.80)	-29.14%	1.00	3.61%	(13.30)	-31.67%								
35	29.50	39.75	41.50	28.40	43.00	(10.25)	-25.79%	(12.00)	-28.92%	1.10	3.87%	(13.50)	-31.40%								
36	30.25	40.50	42.25	29.10	44.00	(10.25)	-25.31%	(12.00)	-28.40%	1.15	3.95%	(13.75)	-31.25%								
37	31.05	41.50	43.25	29.80	45.00	(10.45)	-25.18%	(12.20)	-28.21%	1.25	4.19%	(13.95)	-31.00%								
38	31.80	42.25	44.25	30.50	46.00	(10.45)	-24.73%	(12.45)	-28.14%	1.30	4.26%	(14.20)	-30.87%								
39	32.55	43.25	45.25	31.20	47.00	(10.70)	-24.74%	(12.70)	-28.07%	1.35	4.33%	(14.45)	-30.74%								
40	33.35	44.00	46.25	31.90	48.00	(10.65)	-24.20%	(12.90)	-27.89%	1.45	4.55%	(14.65)	-30.52%								

**Comparison of Proposed Priority Mail Rates with Other Rates
Zone 5 (601 - 1,000 miles)**

Attachment to USPS/NDMS-T2-25

Weight Not Over (pounds)	1	2	3	4	5	6		7		8		9		10		11		12		13	
	Priority Mail Proposed	FedEx 2Day	UPS 2nd Day Air	UPS 3 Day Select	Airborne Second Day	FedEx 2Day Diff. - PM less FedEx % Difference		UPS 2nd Day Air Diff. - PM less UPS % Difference		UPS 3 Day Select Diff. - PM less UPS % Difference		UPS 3 Day Select Diff. - PM less UPS % Difference		Airborne Second Day Diff. - PM less Airb. % Difference		Airborne Second Day Diff. - PM less Airb. % Difference		Airborne Second Day Diff. - PM less Airb. % Difference			
41	34.10	45.00	47.00	32.60	49.00	(10.90)	-24.22%	(12.90)	-27.45%	1.50	4.60%	(14.90)	-30.41%	(14.90)	-30.41%						
42	34.85	45.75	47.75	33.30	50.00	(10.90)	-23.83%	(12.90)	-27.02%	1.55	4.65%	(15.15)	-30.30%	(15.15)	-30.30%						
43	35.65	46.75	48.75	34.00	51.00	(11.10)	-23.74%	(13.10)	-26.87%	1.65	4.85%	(15.35)	-30.10%	(15.35)	-30.10%						
44	36.40	47.50	49.75	34.70	52.00	(11.10)	-23.37%	(13.35)	-26.83%	1.70	4.90%	(15.60)	-30.00%	(15.60)	-30.00%						
45	37.20	48.50	50.75	35.40	53.00	(11.30)	-23.30%	(13.55)	-26.70%	1.80	5.08%	(15.80)	-29.81%	(15.80)	-29.81%						
46	37.95	49.25	51.75	36.10	54.00	(11.30)	-22.94%	(13.80)	-26.67%	1.85	5.12%	(16.05)	-29.72%	(16.05)	-29.72%						
47	38.70	50.25	52.50	36.80	55.00	(11.55)	-22.99%	(13.80)	-26.29%	1.90	5.16%	(16.30)	-29.64%	(16.30)	-29.64%						
48	39.50	51.00	53.25	37.50	56.00	(11.50)	-22.55%	(13.75)	-25.82%	2.00	5.33%	(16.50)	-29.46%	(16.50)	-29.46%						
49	40.25	52.00	54.25	38.20	57.00	(11.75)	-22.60%	(14.00)	-25.81%	2.05	5.37%	(16.75)	-29.39%	(16.75)	-29.39%						
50	41.00	52.75	55.25	38.90	58.00	(11.75)	-22.27%	(14.25)	-25.79%	2.10	5.40%	(17.00)	-29.31%	(17.00)	-29.31%						
51	41.80	53.75	56.25	39.60	59.00	(11.95)	-22.23%	(14.45)	-25.69%	2.20	5.56%	(17.20)	-29.15%	(17.20)	-29.15%						
52	42.55	54.50	57.25	40.20	60.00	(11.95)	-21.93%	(14.70)	-25.68%	2.35	5.85%	(17.45)	-29.08%	(17.45)	-29.08%						
53	43.35	55.50	58.00	40.90	61.00	(12.15)	-21.89%	(14.65)	-25.26%	2.45	5.99%	(17.65)	-28.93%	(17.65)	-28.93%						
54	44.10	56.25	58.75	41.60	62.00	(12.15)	-21.60%	(14.65)	-24.94%	2.50	6.01%	(17.90)	-28.87%	(17.90)	-28.87%						
55	44.85	57.25	59.75	42.30	63.00	(12.40)	-21.66%	(14.90)	-24.94%	2.55	6.03%	(18.15)	-28.81%	(18.15)	-28.81%						
56	45.65	58.00	60.75	43.00	64.00	(12.35)	-21.29%	(15.10)	-24.86%	2.65	6.16%	(18.35)	-28.67%	(18.35)	-28.67%						
57	46.40	59.00	61.75	43.70	65.00	(12.60)	-21.36%	(15.35)	-24.86%	2.70	6.18%	(18.60)	-28.62%	(18.60)	-28.62%						
58	47.15	59.75	62.50	44.30	66.00	(12.60)	-21.09%	(15.35)	-24.56%	2.85	6.43%	(18.85)	-28.56%	(18.85)	-28.56%						
59	47.95	60.75	63.50	45.00	67.00	(12.80)	-21.07%	(15.55)	-24.49%	2.95	6.56%	(19.05)	-28.43%	(19.05)	-28.43%						
60	48.70	61.75	64.50	45.70	68.00	(13.05)	-21.13%	(15.80)	-24.50%	3.00	6.56%	(19.30)	-28.38%	(19.30)	-28.38%						
61	49.50	62.50	65.50	46.40	69.00	(13.00)	-20.80%	(16.00)	-24.43%	3.10	6.68%	(19.50)	-28.26%	(19.50)	-28.26%						
62	50.25	63.50	66.50	47.10	70.00	(13.25)	-20.87%	(16.25)	-24.44%	3.15	6.69%	(19.75)	-28.21%	(19.75)	-28.21%						
63	51.00	64.50	67.50	47.80	71.00	(13.50)	-20.93%	(16.50)	-24.44%	3.20	6.69%	(20.00)	-28.17%	(20.00)	-28.17%						
64	51.80	65.50	68.50	48.40	72.00	(13.70)	-20.92%	(16.70)	-24.38%	3.40	7.02%	(20.20)	-28.06%	(20.20)	-28.06%						
65	52.55	66.50	69.50	49.10	73.00	(13.95)	-20.98%	(16.95)	-24.39%	3.45	7.03%	(20.45)	-28.01%	(20.45)	-28.01%						
66	53.30	67.25	70.50	49.80	74.10	(13.95)	-20.74%	(17.20)	-24.40%	3.50	7.03%	(20.80)	-28.07%	(20.80)	-28.07%						
67	54.10	68.25	71.50	50.50	75.20	(14.15)	-20.73%	(17.40)	-24.34%	3.60	7.13%	(21.10)	-28.06%	(21.10)	-28.06%						
68	54.85	69.25	72.50	51.20	76.30	(14.40)	-20.79%	(17.65)	-24.34%	3.65	7.13%	(21.45)	-28.11%	(21.45)	-28.11%						
69	56.65	70.25	73.50	51.90	77.40	(13.60)	-19.36%	(16.85)	-22.93%	4.75	9.15%	(20.75)	-26.81%	(20.75)	-26.81%						
70	56.40	71.25	74.50	52.60	78.50	(14.85)	-20.84%	(18.10)	-24.30%	3.80	7.22%	(22.10)	-28.15%	(22.10)	-28.15%						

Comparison of Proposed Priority Mail Rates with Other Rates
Zone 6 (1,001 - 1,400 miles)

Attachment to USPS/NDMS-T2-25

Weight Not Over (pounds)	1	2	3	4	5	6		7		8		9		10		11		12		13	
	Priority Mail Proposed	FedEx 2Day	UPS 2nd Day Air	UPS 3 Day Select	Airborne Second Day	FedEx 2Day Diff. - PM less FedEx	% Difference	UPS 2nd Day Air Diff. - PM less UPS	% Difference	UPS 3 Day Select Diff. - PM less UPS	% Difference	Airborne Second Day Diff. - PM less Airb.	% Difference								
2	\$3.20	\$9.50	\$8.50	\$6.10	\$7.75	(\$6.30)	-66.32%	(\$5.30)	-62.35%	(\$2.90)	-47.54%	(\$4.55)	-58.71%								
3	4.40	10.75	9.75	7.00	8.50	(6.35)	-59.07%	(5.35)	-54.87%	(2.60)	-37.14%	(4.10)	-48.24%								
4	5.50	12.00	11.00	7.80	9.00	(6.50)	-54.17%	(5.50)	-50.00%	(2.30)	-29.49%	(3.50)	-38.89%								
5	6.60	13.75	12.25	8.50	9.75	(7.15)	-52.00%	(5.65)	-46.12%	(1.90)	-22.35%	(3.15)	-32.31%								
6	7.80	15.50	13.75	9.30	11.00	(7.70)	-49.68%	(5.95)	-43.27%	(1.50)	-16.13%	(3.20)	-29.09%								
7	9.10	17.25	15.25	10.10	12.50	(8.15)	-47.25%	(6.15)	-40.33%	(1.00)	-9.90%	(3.40)	-27.20%								
8	10.05	19.00	16.75	11.00	13.75	(8.95)	-47.11%	(6.70)	-40.00%	(0.95)	-8.64%	(3.70)	-26.91%								
9	11.00	20.50	18.25	11.80	15.00	(9.50)	-46.34%	(7.25)	-39.73%	(0.80)	-6.78%	(4.00)	-26.67%								
10	11.90	21.75	19.75	12.60	16.00	(9.85)	-45.29%	(7.85)	-39.75%	(0.70)	-5.56%	(4.10)	-25.63%								
11	12.85	23.25	21.00	13.40	17.50	(10.40)	-44.73%	(8.15)	-38.81%	(0.55)	-4.10%	(4.65)	-26.57%								
12	13.80	24.75	22.25	14.20	18.75	(10.95)	-44.24%	(8.45)	-37.98%	(0.40)	-2.82%	(4.95)	-26.40%								
13	14.70	26.25	23.50	15.00	20.25	(11.55)	-44.00%	(8.80)	-37.45%	(0.30)	-2.00%	(5.55)	-27.41%								
14	15.65	27.50	24.75	15.90	21.50	(11.85)	-43.09%	(9.10)	-36.77%	(0.25)	-1.57%	(5.85)	-27.21%								
15	16.60	29.00	26.25	16.80	22.75	(12.40)	-42.76%	(9.65)	-36.76%	(0.20)	-1.19%	(6.15)	-27.03%								
16	17.50	30.00	27.50	17.60	24.00	(12.50)	-41.67%	(10.00)	-36.36%	(0.10)	-0.57%	(6.50)	-27.08%								
17	18.45	31.00	28.75	18.40	25.00	(12.55)	-40.48%	(10.30)	-35.83%	0.05	0.27%	(6.55)	-26.20%								
18	19.40	32.00	30.00	19.20	26.00	(12.60)	-39.38%	(10.60)	-35.33%	0.20	1.04%	(6.60)	-25.38%								
19	20.30	33.00	31.25	20.00	27.00	(12.70)	-38.48%	(10.95)	-35.04%	0.30	1.50%	(6.70)	-24.81%								
20	21.25	34.00	32.75	20.80	28.00	(12.75)	-37.50%	(11.50)	-35.11%	0.45	2.16%	(6.75)	-24.11%								
21	22.20	35.00	34.25	21.60	29.00	(12.80)	-36.57%	(12.05)	-35.18%	0.60	2.78%	(6.80)	-23.45%								
22	23.10	36.00	35.50	22.40	30.00	(12.90)	-35.83%	(12.40)	-34.93%	0.70	3.13%	(6.90)	-23.00%								
23	24.05	37.00	36.75	23.20	31.00	(12.95)	-35.00%	(12.70)	-34.56%	0.85	3.66%	(6.95)	-22.42%								
24	25.00	38.00	38.25	24.00	32.00	(13.00)	-34.21%	(13.25)	-34.64%	1.00	4.17%	(7.00)	-21.88%								
25	25.90	39.00	39.50	24.80	33.00	(13.10)	-33.59%	(13.60)	-34.43%	1.10	4.44%	(7.10)	-21.52%								
26	26.85	40.00	40.75	25.60	34.00	(13.15)	-32.88%	(13.90)	-34.11%	1.25	4.88%	(7.15)	-21.03%								
27	27.80	41.00	42.00	26.40	35.00	(13.20)	-32.20%	(14.20)	-33.81%	1.40	5.30%	(7.20)	-20.57%								
28	28.70	42.00	43.25	27.30	36.00	(13.30)	-31.67%	(14.55)	-33.64%	1.40	5.13%	(7.30)	-20.28%								
29	29.65	43.00	44.50	28.20	37.00	(13.35)	-31.05%	(14.85)	-33.37%	1.45	5.14%	(7.35)	-19.86%								
30	30.60	44.00	46.00	29.00	38.00	(13.40)	-30.45%	(15.40)	-33.48%	1.60	5.52%	(7.40)	-19.47%								
31	31.55	45.25	47.25	29.80	39.00	(13.70)	-30.28%	(15.70)	-33.23%	1.75	5.87%	(7.45)	-19.10%								
32	32.45	46.50	48.50	30.60	40.00	(14.05)	-30.22%	(16.05)	-33.09%	1.85	6.05%	(7.55)	-18.88%								
33	33.40	47.75	49.75	31.40	41.00	(14.35)	-30.05%	(16.35)	-32.86%	2.00	6.37%	(7.60)	-18.54%								
34	34.35	49.00	51.00	32.20	42.00	(14.65)	-29.90%	(16.65)	-32.65%	2.15	6.68%	(7.65)	-18.21%								
35	35.25	50.25	52.50	33.00	43.00	(15.00)	-29.85%	(17.25)	-32.86%	2.25	6.82%	(7.75)	-18.02%								
36	36.20	51.50	53.75	33.80	44.00	(15.30)	-29.71%	(17.55)	-32.65%	2.40	7.10%	(7.80)	-17.73%								
37	37.15	52.75	55.00	34.60	45.00	(15.60)	-29.57%	(17.85)	-32.45%	2.55	7.37%	(7.85)	-17.44%								
38	38.05	54.00	56.25	35.40	46.00	(15.95)	-29.54%	(18.20)	-32.36%	2.65	7.49%	(7.95)	-17.28%								
39	39.00	55.00	57.50	36.20	47.00	(16.00)	-29.09%	(18.50)	-32.17%	2.80	7.73%	(8.00)	-17.02%								
40	39.95	56.25	58.75	37.00	48.00	(16.30)	-28.98%	(18.80)	-32.00%	2.95	7.97%	(8.05)	-16.77%								

Comparison of Proposed Priority Mail Rates with Other Rates
Zone 6 (1,001 - 1,400 miles)

Attachment to USPS/NDMS-T2-25

Weight Not Over (pounds)	1	2	3	4	5	6		7		8		9		10		11		12		13	
	Priority Mail Proposed	FedEx 2Day	UPS 2nd Day Air	UPS 3 Day Select	Airborne Second Day	FedEx 2Day Diff. - PM less FedEx % Difference		UPS 2nd Day Air Diff. - PM less UPS % Difference		UPS 3 Day Select Diff. - PM less UPS % Difference		Airborne Second Day Diff. - PM less Airb. % Difference									
41	40.85	57.50	60.00	37.80	49.00	(16.65)	-28.96%	(19.15)	-31.92%	3.05	8.07%	(8.15)	-16.63%								
42	41.80	58.75	61.25	38.70	50.00	(16.95)	-28.85%	(19.45)	-31.76%	3.10	8.01%	(8.20)	-16.40%								
43	42.75	59.75	62.50	39.50	51.00	(17.00)	-28.45%	(19.75)	-31.60%	3.25	8.23%	(8.25)	-16.18%								
44	43.65	61.00	63.75	40.30	52.00	(17.35)	-28.44%	(20.10)	-31.53%	3.35	8.31%	(8.35)	-16.06%								
45	44.60	62.25	65.00	41.10	53.00	(17.65)	-28.35%	(20.40)	-31.38%	3.50	8.52%	(8.40)	-15.85%								
46	45.55	63.25	66.25	41.90	54.00	(17.70)	-27.98%	(20.70)	-31.25%	3.65	8.71%	(8.45)	-15.65%								
47	46.45	64.50	67.50	42.70	55.00	(18.05)	-27.98%	(21.05)	-31.19%	3.75	8.78%	(8.55)	-15.55%								
48	47.40	65.75	68.75	43.50	56.00	(18.35)	-27.91%	(21.35)	-31.05%	3.90	8.97%	(8.60)	-15.36%								
49	48.35	67.00	70.00	44.30	57.00	(18.65)	-27.84%	(21.65)	-30.93%	4.05	9.14%	(8.65)	-15.18%								
50	49.25	68.00	71.00	45.10	58.00	(18.75)	-27.57%	(21.75)	-30.63%	4.15	9.20%	(8.75)	-15.09%								
51	50.20	69.25	72.25	45.90	59.00	(19.05)	-27.51%	(22.05)	-30.52%	4.30	9.37%	(8.80)	-14.92%								
52	51.15	70.50	73.50	46.70	60.00	(19.35)	-27.45%	(22.35)	-30.41%	4.45	9.53%	(8.85)	-14.75%								
53	52.05	71.50	74.75	47.50	61.00	(19.45)	-27.20%	(22.70)	-30.37%	4.55	9.58%	(8.95)	-14.67%								
54	53.00	72.75	76.00	48.30	62.00	(19.75)	-27.15%	(23.00)	-30.26%	4.70	9.73%	(9.00)	-14.52%								
55	53.95	73.75	77.00	49.20	63.00	(19.80)	-26.85%	(23.05)	-29.94%	4.75	9.65%	(9.05)	-14.37%								
56	54.85	75.00	78.25	50.00	64.00	(20.15)	-26.87%	(23.40)	-29.90%	4.85	9.70%	(9.15)	-14.30%								
57	55.80	76.25	79.50	50.80	65.00	(20.45)	-26.82%	(23.70)	-29.81%	5.00	9.84%	(9.20)	-14.15%								
58	56.75	77.25	80.75	51.60	66.00	(20.50)	-26.54%	(24.00)	-29.72%	5.15	9.98%	(9.25)	-14.02%								
59	57.65	78.50	82.00	52.40	67.00	(20.85)	-26.56%	(24.35)	-29.70%	5.25	10.02%	(9.35)	-13.96%								
60	58.60	79.75	83.25	53.20	68.00	(21.15)	-26.52%	(24.65)	-29.61%	5.40	10.15%	(9.40)	-13.82%								
61	59.55	80.75	84.50	54.10	69.00	(21.20)	-26.25%	(24.95)	-29.53%	5.45	10.07%	(9.45)	-13.70%								
62	60.45	82.00	85.75	54.90	70.00	(21.55)	-26.28%	(25.30)	-29.50%	5.55	10.11%	(9.55)	-13.64%								
63	61.40	83.25	87.00	55.70	71.00	(21.85)	-26.25%	(25.60)	-29.43%	5.70	10.23%	(9.60)	-13.52%								
64	62.35	84.50	88.25	56.50	72.00	(22.15)	-26.21%	(25.90)	-29.35%	5.85	10.35%	(9.65)	-13.40%								
65	63.25	85.75	89.75	57.30	73.00	(22.50)	-26.24%	(26.50)	-29.53%	5.95	10.38%	(9.75)	-13.36%								
66	64.20	86.75	91.00	58.10	74.10	(22.55)	-25.99%	(26.80)	-29.45%	6.10	10.50%	(9.90)	-13.36%								
67	65.15	88.00	92.25	58.90	75.20	(22.85)	-25.97%	(27.10)	-29.38%	6.25	10.61%	(10.05)	-13.36%								
68	66.05	89.25	93.50	59.70	76.30	(23.20)	-25.99%	(27.45)	-29.36%	6.35	10.64%	(10.25)	-13.43%								
69	67.00	90.50	94.75	60.50	77.40	(23.50)	-25.97%	(27.75)	-29.29%	6.50	10.74%	(10.40)	-13.44%								
70	67.95	91.75	96.00	61.30	78.50	(23.80)	-25.94%	(28.05)	-29.22%	6.65	10.85%	(10.55)	-13.44%								

**Comparison of Proposed Priority Mail Rates with Other Rates
Zone 7 (1,401 to 1,800 miles)**

Attachment to USPS/NDMS-T2-25

Weight Not Over (pounds)	1	2	3	4	5	6		7		8		9		10		11		12		13	
	Priority Mail Proposed	FedEx 2Day	UPS 2nd Day Air	UPS 3 Day Select	Airborne Second Day	FedEx 2Day Diff. - PM less FedEx	% Difference	UPS 2nd Day Air Diff. - PM less UPS	% Difference	UPS 3 Day Select Diff. - PM less UPS	% Difference	Airborne Second Day Diff. - PM less Airb.	% Difference								
2	\$3.20	\$9.75	\$9.00	\$6.50	\$7.75	(\$6.55)	-67.18%	(\$5.80)	-64.44%	(\$3.30)	-50.77%	(\$4.55)	-58.71%								
3	4.40	11.25	10.25	7.40	8.50	(6.85)	-60.89%	(5.85)	-57.07%	(3.00)	-40.54%	(4.10)	-48.24%								
4	5.50	12.75	11.50	8.30	9.00	(7.25)	-56.86%	(6.00)	-52.17%	(2.80)	-33.73%	(3.50)	-38.89%								
5	6.60	14.50	13.00	9.10	9.75	(7.90)	-54.48%	(6.40)	-49.23%	(2.50)	-27.47%	(3.15)	-32.31%								
6	8.25	16.50	14.50	10.00	11.00	(8.25)	-50.00%	(6.25)	-43.10%	(1.75)	-17.50%	(2.75)	-25.00%								
7	9.85	18.00	16.00	10.90	12.50	(8.15)	-45.28%	(6.15)	-38.44%	(1.05)	-9.63%	(2.65)	-21.20%								
8	10.85	20.25	17.75	11.90	13.75	(9.40)	-46.42%	(6.90)	-38.87%	(1.05)	-8.82%	(2.90)	-21.09%								
9	11.90	21.50	19.25	12.80	15.00	(9.60)	-44.65%	(7.35)	-38.18%	(0.90)	-7.03%	(3.10)	-20.67%								
10	12.80	23.00	20.75	13.70	16.00	(10.20)	-44.35%	(7.95)	-38.31%	(0.90)	-6.57%	(3.20)	-20.00%								
11	13.85	24.50	22.00	14.60	17.50	(10.65)	-43.47%	(8.15)	-37.05%	(0.75)	-5.14%	(3.65)	-20.86%								
12	14.85	26.00	23.25	15.50	18.75	(11.15)	-42.88%	(8.40)	-36.13%	(0.65)	-4.19%	(3.90)	-20.80%								
13	15.90	27.00	24.50	16.40	20.25	(11.10)	-41.11%	(8.60)	-35.10%	(0.50)	-3.05%	(4.35)	-21.48%								
14	16.90	28.50	25.75	17.30	21.50	(11.60)	-40.70%	(8.85)	-34.37%	(0.40)	-2.31%	(4.60)	-21.40%								
15	17.95	30.00	27.00	18.20	22.75	(12.05)	-40.17%	(9.05)	-33.52%	(0.25)	-1.37%	(4.80)	-21.10%								
16	18.95	31.25	28.25	19.10	24.00	(12.30)	-39.36%	(9.30)	-32.92%	(0.15)	-0.79%	(5.05)	-21.04%								
17	20.00	32.25	29.75	20.00	25.00	(12.25)	-37.98%	(9.75)	-32.77%	0.00	0.00%	(5.00)	-20.00%								
18	21.00	33.50	31.25	20.90	26.00	(12.50)	-37.31%	(10.25)	-32.80%	0.10	0.48%	(5.00)	-19.23%								
19	22.05	34.75	33.00	21.80	27.00	(12.70)	-36.55%	(10.95)	-33.18%	0.25	1.15%	(4.95)	-18.33%								
20	23.05	35.75	34.75	22.70	28.00	(12.70)	-35.52%	(11.70)	-33.67%	0.35	1.54%	(4.95)	-17.68%								
21	24.10	37.00	36.50	23.60	29.00	(12.90)	-34.86%	(12.40)	-33.97%	0.50	2.12%	(4.90)	-16.90%								
22	25.10	38.25	38.00	24.50	30.00	(13.15)	-34.38%	(12.90)	-33.95%	0.60	2.45%	(4.90)	-16.33%								
23	26.15	39.25	39.50	25.40	31.00	(13.10)	-33.38%	(13.35)	-33.80%	0.75	2.95%	(4.85)	-15.65%								
24	27.15	40.50	41.00	26.30	32.00	(13.35)	-32.96%	(13.85)	-33.78%	0.85	3.23%	(4.85)	-15.16%								
25	28.20	41.75	42.25	27.20	33.00	(13.55)	-32.46%	(14.05)	-33.25%	1.00	3.68%	(4.80)	-14.55%								
26	29.20	42.75	43.50	28.10	34.00	(13.55)	-31.70%	(14.30)	-32.87%	1.10	3.91%	(4.80)	-14.12%								
27	30.25	44.00	45.00	29.00	35.00	(13.75)	-31.25%	(14.75)	-32.78%	1.25	4.31%	(4.75)	-13.57%								
28	31.25	45.25	46.50	29.90	36.00	(14.00)	-30.94%	(15.25)	-32.80%	1.35	4.52%	(4.75)	-13.19%								
29	32.30	46.25	48.00	30.80	37.00	(13.95)	-30.16%	(15.70)	-32.71%	1.50	4.87%	(4.70)	-12.70%								
30	33.30	47.50	49.50	31.60	38.00	(14.20)	-29.89%	(16.20)	-32.73%	1.70	5.38%	(4.70)	-12.37%								
31	34.35	49.00	50.75	32.50	39.00	(14.65)	-29.90%	(16.40)	-32.32%	1.85	5.69%	(4.65)	-11.92%								
32	35.35	50.25	52.00	33.40	40.00	(14.90)	-29.65%	(16.65)	-32.02%	1.95	5.84%	(4.65)	-11.63%								
33	36.40	51.50	53.50	34.30	41.00	(15.10)	-29.32%	(17.10)	-31.96%	2.10	6.12%	(4.60)	-11.22%								
34	37.40	53.00	55.00	35.10	42.00	(15.60)	-29.43%	(17.60)	-32.00%	2.30	6.55%	(4.60)	-10.95%								
35	38.40	54.25	56.25	35.90	43.00	(15.85)	-29.22%	(17.85)	-31.73%	2.50	6.96%	(4.60)	-10.70%								
36	39.45	55.50	57.50	36.80	44.00	(16.05)	-28.92%	(18.05)	-31.39%	2.65	7.20%	(4.55)	-10.34%								
37	40.45	57.00	59.00	37.70	45.00	(16.55)	-29.04%	(18.55)	-31.44%	2.75	7.29%	(4.55)	-10.11%								
38	41.50	58.25	60.50	38.60	46.00	(16.75)	-28.76%	(19.00)	-31.40%	2.90	7.51%	(4.50)	-9.78%								
39	42.50	59.50	61.75	39.50	47.00	(17.00)	-28.57%	(19.25)	-31.17%	3.00	7.59%	(4.50)	-9.57%								
40	43.55	60.75	63.00	40.40	48.00	(17.20)	-28.31%	(19.45)	-30.87%	3.15	7.80%	(4.45)	-9.27%								

**Comparison of Proposed Priority Mail Rates with Other Rates
Zone 7 (1,401 to 1,800 miles)**

Attachment to USPS/NDMS-T2-25

Weight Not Over (pounds)	1	2	3	4	5	6		7		8		9		10		11		12		13			
	Priority Mail Proposed	FedEx 2Day	UPS 2nd Day Air	UPS 3 Day Select	Airborne Second Day	FedEx 2Day Diff. - PM less FedEx		UPS 2nd Day Air Diff. - PM less UPS		UPS 3 Day Select Diff. - PM less UPS		UPS 3 Day Select Diff. - PM less UPS		Airborne Second Day Diff. - PM less Airb.		Airborne Second Day Diff. - PM less Airb.							
							% Difference		% Difference		% Difference		% Difference		% Difference		% Difference		% Difference		% Difference		% Difference
41	44.55	62.25	64.50	41.20	49.00	(17.70)	-28.43%	(19.95)	-30.93%	3.35	8.13%	(4.45)	-9.08%	(4.45)	-9.08%								
42	45.60	63.50	66.00	42.10	50.00	(17.90)	-28.19%	(20.40)	-30.91%	3.50	8.31%	(4.40)	-8.80%	(4.40)	-8.80%								
43	46.60	64.75	67.25	43.00	51.00	(18.15)	-28.03%	(20.65)	-30.71%	3.60	8.37%	(4.40)	-8.63%	(4.40)	-8.63%								
44	47.65	66.00	68.50	43.90	52.00	(18.35)	-27.80%	(20.85)	-30.44%	3.75	8.54%	(4.35)	-8.37%	(4.35)	-8.37%								
45	48.65	67.25	69.75	44.80	53.00	(18.60)	-27.66%	(21.10)	-30.25%	3.85	8.59%	(4.35)	-8.21%	(4.35)	-8.21%								
46	49.70	68.50	71.00	45.70	54.00	(18.80)	-27.45%	(21.30)	-30.00%	4.00	8.75%	(4.30)	-7.96%	(4.30)	-7.96%								
47	50.70	69.75	72.50	46.60	55.00	(19.05)	-27.31%	(21.80)	-30.07%	4.10	8.80%	(4.30)	-7.82%	(4.30)	-7.82%								
48	51.75	71.25	74.00	47.50	56.00	(19.50)	-27.37%	(22.25)	-30.07%	4.25	8.95%	(4.25)	-7.59%	(4.25)	-7.59%								
49	52.75	72.50	75.25	48.40	57.00	(19.75)	-27.24%	(22.50)	-29.90%	4.35	8.99%	(4.25)	-7.46%	(4.25)	-7.46%								
50	53.80	73.75	76.50	49.30	58.00	(19.95)	-27.05%	(22.70)	-29.67%	4.50	9.13%	(4.20)	-7.24%	(4.20)	-7.24%								
51	54.80	75.00	78.00	50.20	59.00	(20.20)	-26.93%	(23.20)	-29.74%	4.60	9.16%	(4.20)	-7.12%	(4.20)	-7.12%								
52	55.85	76.25	79.25	51.00	60.00	(20.40)	-26.75%	(23.40)	-29.53%	4.85	9.51%	(4.15)	-6.92%	(4.15)	-6.92%								
53	56.85	77.50	80.50	51.90	61.00	(20.65)	-26.65%	(23.65)	-29.38%	4.95	9.54%	(4.15)	-6.80%	(4.15)	-6.80%								
54	57.90	78.75	81.75	52.80	62.00	(20.85)	-26.48%	(23.85)	-29.17%	5.10	9.66%	(4.10)	-6.61%	(4.10)	-6.61%								
55	58.90	80.00	83.25	53.70	63.00	(21.10)	-26.38%	(24.35)	-29.25%	5.20	9.68%	(4.10)	-6.51%	(4.10)	-6.51%								
56	59.95	81.25	84.50	54.60	64.00	(21.30)	-26.22%	(24.55)	-29.05%	5.35	9.80%	(4.05)	-6.33%	(4.05)	-6.33%								
57	60.95	82.50	85.75	55.50	65.00	(21.55)	-26.12%	(24.80)	-28.92%	5.45	9.82%	(4.05)	-6.23%	(4.05)	-6.23%								
58	62.00	83.75	87.00	56.40	66.00	(21.75)	-25.97%	(25.00)	-28.74%	5.60	9.93%	(4.00)	-6.06%	(4.00)	-6.06%								
59	63.00	85.00	88.25	57.30	67.00	(22.00)	-25.88%	(25.25)	-28.61%	5.70	9.95%	(4.00)	-5.97%	(4.00)	-5.97%								
60	64.05	86.25	89.50	58.20	68.00	(22.20)	-25.74%	(25.45)	-28.44%	5.85	10.05%	(3.95)	-5.81%	(3.95)	-5.81%								
61	65.05	87.50	91.00	59.10	69.00	(22.45)	-25.66%	(25.95)	-28.52%	5.95	10.07%	(3.95)	-5.72%	(3.95)	-5.72%								
62	66.10	89.00	92.50	60.00	70.00	(22.90)	-25.73%	(26.40)	-28.54%	6.10	10.17%	(3.90)	-5.57%	(3.90)	-5.57%								
63	67.10	90.25	93.75	60.90	71.00	(23.15)	-25.65%	(26.65)	-28.43%	6.20	10.18%	(3.90)	-5.49%	(3.90)	-5.49%								
64	68.15	91.50	95.00	61.80	72.00	(23.35)	-25.52%	(26.85)	-28.26%	6.35	10.28%	(3.85)	-5.35%	(3.85)	-5.35%								
65	69.15	93.00	96.50	62.70	73.00	(23.85)	-25.65%	(27.35)	-28.34%	6.45	10.29%	(3.85)	-5.27%	(3.85)	-5.27%								
66	70.20	94.25	97.75	63.60	74.10	(24.05)	-25.52%	(27.55)	-28.18%	6.60	10.38%	(3.90)	-5.26%	(3.90)	-5.26%								
67	71.20	95.50	99.25	64.50	75.20	(24.30)	-25.45%	(28.05)	-28.26%	6.70	10.39%	(4.00)	-5.32%	(4.00)	-5.32%								
68	72.25	97.00	100.75	65.40	76.30	(24.75)	-25.52%	(28.50)	-28.29%	6.85	10.47%	(4.05)	-5.31%	(4.05)	-5.31%								
69	73.25	98.25	102.00	66.30	77.40	(25.00)	-25.45%	(28.75)	-28.19%	6.95	10.48%	(4.15)	-5.36%	(4.15)	-5.36%								
70	74.30	99.50	103.25	67.20	78.50	(25.20)	-25.33%	(28.95)	-28.04%	7.10	10.57%	(4.20)	-5.35%	(4.20)	-5.35%								

**Comparison of Proposed Priority Mail Rates with Other Rates
Zone 8 (1,801 miles or more)**

Attachment to USPS/NDMS-T2-25

Weight Not Over (pounds)	1	2	3	4	5	6	7	8	9	10	11	12	13
	Priority Mail Proposed	FedEx 2Day	UPS 2nd Day Air	UPS 3 Day Select	Airborne Second Day	FedEx 2Day Diff. - PM % less FedEx Difference		UPS 2nd Day Air Diff. - PM % less UPS Difference		UPS 3 Day Select Diff. - PM % less UPS Difference		Airborne Second Day Diff. - PM % less Airb. Difference	
2	\$3.20	\$10.25	\$9.50	\$6.80	\$7.75	(\$7.05)	-68.78%	(\$6.30)	-66.32%	(\$3.60)	-52.94%	(\$4.55)	-58.71%
3	4.40	11.50	10.50	7.80	8.50	(7.10)	-61.74%	(6.10)	-58.10%	(3.40)	-43.59%	(4.10)	-48.24%
4	5.50	13.25	12.00	8.80	9.00	(7.75)	-58.49%	(6.50)	-54.17%	(3.30)	-37.50%	(3.50)	-38.89%
5	6.60	15.00	13.50	9.70	9.75	(8.40)	-56.00%	(6.90)	-51.11%	(3.10)	-31.96%	(3.15)	-32.31%
6	8.75	17.00	15.25	10.70	11.00	(8.25)	-48.53%	(6.50)	-42.62%	(1.95)	-18.22%	(2.25)	-20.45%
7	11.15	19.00	17.00	11.70	12.50	(7.85)	-41.32%	(5.85)	-34.41%	(0.55)	-4.70%	(1.35)	-10.80%
8	12.40	21.00	18.50	12.70	13.75	(8.60)	-40.95%	(6.10)	-32.97%	(0.30)	-2.36%	(1.35)	-9.82%
9	13.65	22.50	19.75	13.70	15.00	(8.85)	-39.33%	(6.10)	-30.89%	(0.05)	-0.36%	(1.35)	-9.00%
10	14.85	23.75	21.25	14.70	16.00	(8.90)	-37.47%	(6.40)	-30.12%	0.15	1.02%	(1.15)	-7.19%
11	16.10	25.25	22.75	15.70	17.50	(9.15)	-36.24%	(6.65)	-29.23%	0.40	2.55%	(1.40)	-8.00%
12	17.35	26.75	24.00	16.70	18.75	(9.40)	-35.14%	(6.65)	-27.71%	0.65	3.89%	(1.40)	-7.47%
13	18.60	28.25	25.25	17.70	20.25	(9.65)	-34.16%	(6.65)	-26.34%	0.90	5.08%	(1.65)	-8.15%
14	19.85	29.50	26.50	18.70	21.50	(9.65)	-32.71%	(6.65)	-25.09%	1.15	6.15%	(1.65)	-7.67%
15	21.05	31.00	28.00	19.70	22.75	(9.95)	-32.10%	(6.95)	-24.82%	1.35	6.85%	(1.70)	-7.47%
16	22.30	32.25	29.25	20.70	24.00	(9.95)	-30.85%	(6.95)	-23.76%	1.60	7.73%	(1.70)	-7.08%
17	23.55	33.50	30.75	21.70	25.00	(9.95)	-29.70%	(7.20)	-23.41%	1.85	8.53%	(1.45)	-5.80%
18	24.80	34.75	32.25	22.70	26.00	(9.95)	-28.63%	(7.45)	-23.10%	2.10	9.25%	(1.20)	-4.62%
19	26.05	36.00	34.00	23.70	27.00	(9.95)	-27.64%	(7.95)	-23.38%	2.35	9.92%	(0.95)	-3.52%
20	27.25	37.25	35.75	24.60	28.00	(10.00)	-26.85%	(8.50)	-23.78%	2.65	10.77%	(0.75)	-2.68%
21	28.50	38.50	37.50	25.50	29.00	(10.00)	-25.97%	(9.00)	-24.00%	3.00	11.76%	(0.50)	-1.72%
22	29.75	39.75	39.25	26.50	30.00	(10.00)	-25.16%	(9.50)	-24.20%	3.25	12.26%	(0.25)	-0.83%
23	31.00	41.25	40.75	27.50	31.00	(10.25)	-24.85%	(9.75)	-23.93%	3.50	12.73%	0.00	0.00%
24	32.25	42.50	42.50	28.50	32.00	(10.25)	-24.12%	(10.25)	-24.12%	3.75	13.16%	0.25	0.78%
25	33.45	43.75	44.00	29.50	33.00	(10.30)	-23.54%	(10.55)	-23.98%	3.95	13.39%	0.45	1.36%
26	34.70	45.00	45.50	30.50	34.00	(10.30)	-22.89%	(10.80)	-23.74%	4.20	13.77%	0.70	2.06%
27	35.95	46.25	47.00	31.50	35.00	(10.30)	-22.27%	(11.05)	-23.51%	4.45	14.13%	0.95	2.71%
28	37.20	47.50	48.75	32.50	36.00	(10.30)	-21.68%	(11.55)	-23.69%	4.70	14.46%	1.20	3.33%
29	38.45	48.75	50.25	33.50	37.00	(10.30)	-21.13%	(11.80)	-23.48%	4.95	14.78%	1.45	3.92%
30	39.65	50.00	51.75	34.40	38.00	(10.35)	-20.70%	(12.10)	-23.38%	5.25	15.26%	1.65	4.34%
31	40.90	51.50	53.25	35.30	39.00	(10.60)	-20.58%	(12.35)	-23.19%	5.60	15.86%	1.90	4.87%
32	42.15	52.75	54.75	36.30	40.00	(10.60)	-20.09%	(12.60)	-23.01%	5.85	16.12%	2.15	5.38%
33	43.40	54.00	56.00	37.30	41.00	(10.60)	-19.63%	(12.60)	-22.50%	6.10	16.35%	2.40	5.85%
34	44.65	55.50	57.50	38.30	42.00	(10.85)	-19.55%	(12.85)	-22.35%	6.35	16.58%	2.65	6.31%
35	45.85	56.75	58.75	39.30	43.00	(10.90)	-19.21%	(12.90)	-21.96%	6.55	16.67%	2.85	6.63%
36	47.10	58.00	60.00	40.30	44.00	(10.90)	-18.79%	(12.90)	-21.50%	6.80	16.87%	3.10	7.05%
37	48.35	59.25	61.50	41.20	45.00	(10.90)	-18.40%	(13.15)	-21.38%	7.15	17.35%	3.35	7.44%
38	49.60	60.75	63.00	42.20	46.00	(11.15)	-18.35%	(13.40)	-21.27%	7.40	17.54%	3.60	7.83%
39	50.85	62.25	64.50	43.20	47.00	(11.40)	-18.31%	(13.65)	-21.16%	7.65	17.71%	3.85	8.19%
40	52.10	63.50	65.75	44.20	48.00	(11.40)	-17.95%	(13.65)	-20.76%	7.90	17.87%	4.10	8.54%

**Comparison of Proposed Priority Mail Rates with Other Rates
Zone 8 (1,801 miles or more)**

Attachment to USPS/NDMS-T2-25

Weight Not Over (pounds)	1	2	3	4	5	6	7	8	9	10	11	12	13
	Priority Mail Proposed	FedEx 2Day	UPS 2nd Day Air	UPS 3 Day Select	Airborne Second Day	FedEx 2Day		UPS 2nd Day Air		UPS 3 Day Select		Airborne Second Day	
						Diff. - PM less FedEx	% Difference	Diff. - PM less UPS	% Difference	Diff. - PM less UPS	% Difference	Diff. - PM less Airb.	% Difference
41	53.30	65.00	67.25	45.20	49.00	(11.70)	-18.00%	(13.95)	-20.74%	8.10	17.92%	4.30	8.78%
42	54.55	66.25	68.75	46.20	50.00	(11.70)	-17.66%	(14.20)	-20.65%	8.35	18.07%	4.55	9.10%
43	55.80	67.50	70.00	47.20	51.00	(11.70)	-17.33%	(14.20)	-20.29%	8.60	18.22%	4.80	9.41%
44	57.05	68.75	71.25	48.10	52.00	(11.70)	-17.02%	(14.20)	-19.93%	8.95	18.61%	5.05	9.71%
45	58.30	70.00	72.50	49.10	53.00	(11.70)	-16.71%	(14.20)	-19.59%	9.20	18.74%	5.30	10.00%
46	59.50	71.25	73.75	50.10	54.00	(11.75)	-16.49%	(14.25)	-19.32%	9.40	18.76%	5.50	10.19%
47	60.75	72.50	75.25	51.10	55.00	(11.75)	-16.21%	(14.50)	-19.27%	9.65	18.88%	5.75	10.45%
48	62.00	73.75	76.50	52.10	56.00	(11.75)	-15.93%	(14.50)	-18.95%	9.90	19.00%	6.00	10.71%
49	63.25	75.00	77.75	53.10	57.00	(11.75)	-15.67%	(14.50)	-18.65%	10.15	19.11%	6.25	10.96%
50	64.50	76.25	79.00	54.10	58.00	(11.75)	-15.41%	(14.50)	-18.35%	10.40	19.22%	6.50	11.21%
51	65.70	77.50	80.25	55.10	59.00	(11.80)	-15.23%	(14.55)	-18.13%	10.60	19.24%	6.70	11.36%
52	66.95	78.75	81.50	56.10	60.00	(11.80)	-14.98%	(14.55)	-17.85%	10.85	19.34%	6.95	11.58%
53	68.20	80.00	83.00	57.10	61.00	(11.80)	-14.75%	(14.80)	-17.83%	11.10	19.44%	7.20	11.80%
54	69.45	81.25	84.25	58.10	62.00	(11.80)	-14.52%	(14.80)	-17.57%	11.35	19.54%	7.45	12.02%
55	70.70	82.50	85.50	59.10	63.00	(11.80)	-14.30%	(14.80)	-17.31%	11.60	19.63%	7.70	12.22%
56	71.90	83.75	86.75	60.10	64.00	(11.85)	-14.15%	(14.85)	-17.12%	11.80	19.63%	7.90	12.34%
57	73.15	85.00	88.00	61.10	65.00	(11.85)	-13.94%	(14.85)	-16.88%	12.05	19.72%	8.15	12.54%
58	74.40	86.25	89.50	62.10	66.00	(11.85)	-13.74%	(15.10)	-16.87%	12.30	19.81%	8.40	12.73%
59	75.65	87.50	90.75	63.10	67.00	(11.85)	-13.54%	(15.10)	-16.64%	12.55	19.89%	8.65	12.91%
60	76.90	89.00	92.25	64.10	68.00	(12.10)	-13.60%	(15.35)	-16.64%	12.80	19.97%	8.90	13.09%
61	78.10	90.25	93.50	65.10	69.00	(12.15)	-13.46%	(15.40)	-16.47%	13.00	19.97%	9.10	13.19%
62	79.35	91.75	95.00	66.10	70.00	(12.40)	-13.51%	(15.65)	-16.47%	13.25	20.05%	9.35	13.36%
63	80.60	93.00	96.50	67.10	71.00	(12.40)	-13.33%	(15.90)	-16.48%	13.50	20.12%	9.60	13.52%
64	81.85	94.50	98.00	68.00	72.00	(12.65)	-13.39%	(16.15)	-16.48%	13.85	20.37%	9.85	13.68%
65	83.10	95.75	99.25	69.00	73.00	(12.65)	-13.21%	(16.15)	-16.27%	14.10	20.43%	10.10	13.84%
66	84.30	97.25	100.75	70.00	74.10	(12.95)	-13.32%	(16.45)	-16.33%	14.30	20.43%	10.20	13.77%
67	85.55	98.50	102.25	71.00	75.20	(12.95)	-13.15%	(16.70)	-16.33%	14.55	20.49%	10.35	13.76%
68	86.80	100.00	103.75	72.00	76.30	(13.20)	-13.20%	(16.95)	-16.34%	14.80	20.56%	10.50	13.76%
69	88.05	101.25	105.00	73.00	77.40	(13.20)	-13.04%	(16.95)	-16.14%	15.05	20.62%	10.65	13.76%
70	89.30	102.75	106.50	73.90	78.50	(13.45)	-13.09%	(17.20)	-16.15%	15.40	20.84%	10.80	13.76%

Response of Dr. John Haldi to USPS/NDMS-T2-26
Page 1 of 2

USPS/NDMS-T2-26

Please refer to your footnote 25 on page 25 where you state: "No basis exists for estimating different elasticities for individual cells, nor is it necessary to do so in order to utilize the alternative procedure proposed here."

- a. Please confirm your understanding that the own-price elasticity estimated by Dr. Musgrave for Priority Mail is based on average changes in rates and volumes. If you cannot confirm, please explain fully.
- b. Please confirm that such an estimate may not hold for any particular rate and volume change in any particular cell. If you cannot confirm, please explain fully.
- c. Please confirm that the use of the estimate developed as an aggregate figure in the method you are proposing, in effect, treats that estimate as if it holds for individual cells. If you cannot confirm, please explain fully.
- d. Please confirm that the use of the estimate developed as an aggregate figure in the method you are proposing assumes, in effect, that volume in each cell is totally unaffected by rate changes in any other cell. If you cannot confirm, please explain fully.

Response:

- (a) Confirmed.
- (b) Confirmed. If a better estimate were to become available for any particular cell, or for any particular subset of cells, such better information should of course be used. Until such better information is available, I recommend using the own-price elasticity based on average changes in rates and volumes, as estimated by Dr. Musgrave. I would also note that the estimates for individual cells developed under the existing procedure may not hold either, especially for

Response of Dr. John Haldi to USPS/NDMS-T2-26
Page 2 of 2

cells that experience somewhat higher-than-average rate increases.

- (c) Confirmed. When rates change by a uniform percentage amount (*i.e.*, when there is an across-the-board percentage rate increase) the existing procedure is essentially no different than my proposed alternate procedure; *i.e.*, the results are the same. When rates do not change by a uniform percentage amount, one must either (i) use the existing procedure, which ignores totally rate design and all differences in proposed percentage changes in rates, no matter how great or small such differences may be, or (ii) develop a better procedure which recognizes different percentage changes and the effect which such changes may have on demand. Either procedure projects volumes cell-by-cell, and multiplying the projected volumes in each cell times the proposed rates for each cell results in a revenue projection. Revenues projected with my alternate procedure are, in my opinion, more conservative and more realistic.
- (d) Confirmed. The existing procedure for projecting volumes likewise assumes that the volume in each cell is totally unaffected by rate changes in any other cell, *as well as the rate change for the cell itself*. My alternate procedure at least is an improvement over this practice.

Response of Dr. John Haldi to USPS/NDMS-T2-27
Page 1 of 1

USPS/NDMS-T2-27

Please refer to your footnote 27 on page 26 where you indicate that “it is a straightforward exercise to compute revised costs by multiplying TYAR volumes in each cell by the cost in each cell.” Please confirm that such an exercise assumes that the costs are fully (100%) volume variable. If you cannot confirm, please explain how you have taken into account the changes in unit costs which would result as volume changes.

Response:

Confirmed. The costs for each rate cell were computed on the basis of volume variable costs. I am not aware that the estimates of volume variable unit costs for Priority Mail reflect either diseconomies, on the one hand, or economies of scale and scope, on the other hand.

Response of Dr. John Haldi to USPS/NDMS-T2-28
Page 1 of 1

USPS/NDMS-T2-28

Please refer to your testimony at page 36, lines 6 through 10, where you discuss the alleged failure of the Postal Service's rate design to recognize dropshipment. Please provide your estimate of the percent of Priority Mail weighing more than five pounds that is dropshipment Priority Mail, and indicate the source of your figure.

Response:

I do not have a precise figure. However, in Docket No. R90-1, I aggregated confidential data for my through-the-mail photofinisher clients and estimated that perhaps one-quarter of all Priority Mail volume in excess of 25 pounds represented dropshipment to SCFs. Since that time, I have become aware that other types of businesses, such as Merck-Medco and AARP, also use Priority Mail dropship for products such as prescription drugs, but I am not privy to their volumes of Priority Mail shipped nor have I updated data on Priority Mail shipments from my photofinisher clients.

Response of Dr. John Haldi to USPS/NDMS-T2-29
Page 1 of 1

USPS/NDMS-T2-29

Please refer to your testimony at page 36, lines 15 through 17, where you state the alleged failure to recognize worksharing in Priority Mail rates is "another reason why heavier weight Priority Mail rates should be kept more competitive with other providers of expedited delivery service."

- (a) Please provide charts indicating the rates actually paid by shippers of "heavier weight" items via competitors' services comparable to Priority Mail.
- (b) Can such competitors' services be used for dropshipment?

Response:

- (a) For published rates of competitors services comparable to Priority Mail, see my response to USPS/NDMS-T2-25. Discounting from published rates is generally acknowledged to be widespread, and I do not have any data on "the rates actually paid" by shippers of heavier weight items. I understand that a discount of at least 20 percent from published rates is common, with some large shippers perhaps getting even larger discounts. I have also seen advertisements stating that use of the American Express Gold Card with FedEx will give the user a 20 percent discount from FedEx's published rates. Also, membership in certain associations gets members an automatic 10 percent reduction in UPS Next Day Air rates irrespective of volume.
- (b) It is my understanding that some firms can use and have used competitors' services for dropshipment, although this presents extra administrative work for the mailer.

Response of Dr. John Haldi to USPS/NDMS-T2-30
Page 1 of 2

USPS/NDMS-T2-30

Please refer to your testimony at page 37, lines 10 through 13, where you state that "whatever is good for Periodicals and Standard A should be good for Priority Mail - and vice versa."

- a. Please indicate your belief as to the similarity or dissimilarity of the markets for services for the three products listed above.
- b. Please reconcile this statement with your statement in your footnote 39 where you indicate that "Consolidation requires time and results in delay which is counter-productive for shippers who require expedited service."

Response:

- (a) The context of my comment was the Postal Service's consistency of the treatment of transportation costs in rate design. I noted where the Postal Service's incorporation of transportation costs into its proposed third-class rates in Docket No. R90-1 resulted in rates which were "only as high as is required to cover the service provided." (NDMS-T-2, p. 34, ll. 1-9). Immediately above the portion of testimony which you cite, I observe that this clear and compelling principle has never been applied by the Postal Service to Priority Mail. As regards the market for these postal products, the market for delivery of Periodicals (especially dailies and weeklies) and Priority Mail are similar in that both groups of mailers want expedited, consistent and reliable delivery service at an affordable price. At the same time, affordability is probably more important for Periodicals than it is for Priority Mail. The market for Standard A differs insofar as mailers have more lead time, hence can plan ahead farther,

Response of Dr. John Haldi to USPS/NDMS-T2-30

Page 2 of 2

and therefore place a higher premium on consistency, reliability and affordability than they do on expedition.

- (b) The requirement for expedition gives a consolidator limited time to accumulate the full loads that are necessary to achieve low unit transportation cost through full utilization of capacity. Thus while parcel consolidators have helped make the Postal Service competitive with respect to parcel post, in the expedited market, consolidator firms that might work cooperatively with the Postal Service simply do not exist.

Response of Dr. John Haldi to USPS/NDMS-T2-31
Page 1 of 1

USPS/NDMS-T2-31

Please refer to your testimony at page 38 where you discuss the uniform increment for each additional pound in the unzoned rates. Please indicate your belief as to whether the success of the unzoned rates which you have observed is due to the fact that the difference between successive rates is the same amount, or the fact that the rates are at even dollar amounts. Explain fully.

Response:

In Docket No. R94-1, I argued strongly in favor of uniform increments for Priority Mail, which the Commission recommended. Although uniform rates (as well as the even dollar amounts) have doubtless been a factor in "the success of the unzoned rates," in all candor, most credit for the growth of the volume of unzoned Priority Mail must go to the substantial rate advantage enjoyed by 2 to 5 pound Priority Mail packages at the expense of zoned 6-70 pound Priority Mail (see my response to USPS/NDMS-T2-25). Looking only at the two factors which you mention, both the uniform increments and even dollar amounts contribute to simplicity of rates. I do not know which was more important. The combination of the two may also have been an important contributory factor.

Response of Dr. John Haldi to USPS/NDMS-T2-32
Page 1 of 2

USPS/NDMS-T2-32

Please refer to your response to USPS/NDMS-T2-1b. You state that "the Postal Service has elected to charge off all start-up expenses as incurred, and concurrently impose a high markup on Priority Mail during the test year."

- (a) Please confirm that start-up costs are non-recurring one-time costs associated with the initiation of a new program; in this case the PMPC network. If you do not confirm, please explain what you mean by start-up costs.
- (b) Please confirm that the PMPC costs summarized in witness Patelunas's response to UPS/USPS-T-33-58 reflect the total costs related to the PMPC network included in this filing. If you do not confirm, please explain and provide any other costs related to the PMPC network included in this filing and their source.
- (c) Please confirm that the \$301.813 million of PMPC cost cited in part b), above, relate to the contract with Emery to run Phase I of the PMPC network. If you do not confirm, please provide your understanding of these costs.
- (d) Please confirm that the \$301.813 million of PMPC network costs are not start-up costs, but rather the ongoing contract cost paid to Emery for operating Phase I of the PMPC network. If you do not confirm, please explain which of these costs constitute start-up costs and why.

Response:

- (a) Confirmed.
- (b) Confirmed.
- (c) Confirmed.
- (d) From the Postal Service's perspective, all the costs of the PMPC contract may appear to be operating costs for Phase I of the PMPC network. This does not mean, however, that the contract payments do not include start-up costs for

Response of Dr. John Haldi to USPS/NDMS-T2-32

Page 2 of 2

Emery, although such costs may not be specifically identified as such. In fact, it is virtually unthinkable that a contract to establish a new PMPC network would not include start-up costs. Such costs would include training, security equipment, purchase of specialized equipment for sortation and handling of Priority Mail, and opening of the new facilities. Although implicit, the presence of start-up costs nevertheless could be revealed by the terms of the contract. For example, while the contract may anticipate the possibility of expanding volume, if payments on a unit basis are scheduled to decline over time, this would indicate expected economies associated with the familiar learning curve effect. From an economic perspective, the higher costs in the first year are appropriately thought of as start-up costs. The contract with Emery to operate the PMPC network (filed as LR-H-235) has been extensively redacted, so it is difficult to say just how much of the \$300.813 million of PMPC network costs in this docket are start-up costs. But whatever start-up costs Emery incurs to perform the contract, it can be expected to pass these costs on to the Postal Service. It is utterly naive to think otherwise.

1 CHAIRMAN GLEIMAN: Only one participant, the
2 Postal Service, has requested oral cross-examination.

3 Does anyone else wish to cross-examine the
4 witness?

5 [No response.]

6 CHAIRMAN GLEIMAN: If that is the case, there
7 doesn't appear to be anyone else. Mr. Cooper, when you are
8 ready.

9 MR. COOPER: Well, Mr. Chairman, upon reflection,
10 and reading the latest responses, I have decided that I have
11 no further questions for this witness.

12 CHAIRMAN GLEIMAN: Well, as I have said before,
13 that means that there can't be any follow-up, and there
14 can't be any redirect, at least that's the way I understand
15 it.

16 And if that is the case, Dr. Haldi, we really do
17 appreciate your short visit with us today. We will see you
18 again a bit downstream in these proceedings, but I want to
19 thank you for your contributions to our record. And if
20 there is nothing further, you are excused.

21 THE WITNESS: I am showing my age, but reminded of
22 what Jackie Gleason used to say, "How sweet it is."

23 CHAIRMAN GLEIMAN: I don't know whether that means
24 that I am old, or you're young, because I remember that,
25 too. So, I like to think we both must be pretty young.

1 We're going to take a five-minute break while
2 people shuffle in and out of the room.

3 [Recess.]

4 CHAIRMAN GLEIMAN: Mr. Richardson, if you would
5 identify your witness so that I can swear her in.

6 MR. RICHARDSON: Thank you, Mr. Chairman. The
7 Office of the Consumer Advocate calls it's first witness,
8 Pamela A. Thompson.

9 CHAIRMAN GLEIMAN: Ms. Thompson, if you would
10 please rise, raise your right hand?
11 Whereupon,

12 PAMELA A. THOMPSON,
13 a witness, was called for examination by counsel for the
14 Office of Consumer Advocate and, having been first duly
15 sworn, was examined and testified as follows:

16 CHAIRMAN GLEIMAN: Please be seated.

17 Counsel, if you would please introduce her
18 testimony.

19 DIRECT EXAMINATION

20 BY MR. RICHARDSON:

21 Q Ms. Thompson, do you have before you copies of
22 your direct testimony that was filed in this case?

23 A I do.

24 Q Do you have any additions or corrections you would
25 like to make to that testimony at this time?

1 A I have two corrections to my testimony. The first
2 correction is to Appendix A, page 3, footnote 11. On the
3 second line of footnote 11, please change the word
4 "workyear" to "volume". The correction should read, "Save
5 the results of the volume mixed adjustment for later viewing
6 and printing."

7 The second correction it to Appendix B. On the
8 third line, the sentence begins, "More files needed to
9 replicate"; please insert the word "are" so that corrected
10 phrase reads as follows: "More files are needed to
11 replicate". The copies I have, have the corrections in
12 them.

13 Q And if you were asked the questions that are
14 contained therein, would your testimony be the same as it is
15 there?

16 A Yes, it would.

17 MR. RICHARDSON: Mr. Chairman, I ask that this
18 testimony be moved into evidence.

19 CHAIRMAN GLEIMAN: Are there any objections?

20 [No response.]

21 CHAIRMAN GLEIMAN: Hearing none, Ms. Thompson's
22 exhibits and corrected testimony are received into evidence
23 and I direct that they be accepted into evidence and
24 transcribed into the record at this point.

25 [Direct Testimony and Exhibits of

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Pamela A. Thompson, OCA-T-100, was
received into evidence and
transcribed into the record.]

OCA-T-100
Docket No. R97-1

DIRECT TESTIMONY
OF
PAMELA A. THOMPSON

ON BEHALF OF
THE OFFICE OF THE CONSUMER ADVOCATE

DECEMBER 30, 1997

TABLE OF CONTENTS

STATEMENT OF QUALIFICATIONS.....	1
I. PURPOSE AND SCOPE OF TESTIMONY.....	3
II. THE COMMISSION'S COST MODEL PROGRAM	5
A. The Commission's Cost Model Uses Four Programs To Replicate Postal Service Base Year Data	6
B. The Commission's Cost Model Is Easily Run	7
C. The Commission's Cost Model Replicates The Postal Service's Data.....	7
III. CONCLUSION	9
APPENDICES	
EXHIBITS	

1 DIRECT TESTIMONY OF
2 PAMELA A. THOMPSON

3 STATEMENT OF QUALIFICATIONS
4

5 My name is Pamela A. Thompson. I am a Postal Rate and Classification
6 Specialist for the Office of the Consumer Advocate (OCA). I have been employed at
7 the Postal Rate Commission since March 1990. I have testified previously before
8 this Commission in Docket Nos. R90-1, MC93-1, R94-1, MC95-1 and MC96-3. My
9 testimony in Docket No. MC96-3 proposed to show that the Postal Service was
10 attempting to misuse the classification reform framework to target a few special
11 services for price increases. My testimony in Docket No. MC95-1 proposed a
12 Courtesy Envelope Mail (CEM) rate category and a 12 cent per piece discount for
13 qualifying First-Class single-piece courtesy reply envelopes. My testimony in Docket
14 No. R94-1 proposed a new methodology for the recovery of prior years' losses. I
15 also proposed a change in the amount of, and the allocation methodology for, a
16 contingency provision. In Docket No. MC93-1, my testimony reviewed the Postal
17 Service's cost coverage for the new BSPS classification proposal. In Docket No.
18 R90-1, my testimony proposed the adoption of two discounted single-piece rate
19 categories within First-Class Mail. A three-cent discount was proposed for Courtesy
20 Envelope Mail (CEM), an automation-compatible prebarcoded envelope. The

1 second category, Automation Compatible Envelope (ACE), consisted of mail pieces
2 to be produced and sold by the Postal Service as a specialized form of the stamped
3 envelope products currently offered by the Postal Service.

4 Prior to my employment with the Postal Rate Commission, I was an Assistant
5 Controller for Chemical Waste Management (CWM). My responsibilities included
6 management of a regional accounts payable department and reviewing and
7 reporting the financial performance of a midwestern division of the company.

8 Prior to my employment with CWM, I was a Staff Business Planner for a
9 division of International Business Machines (IBM). At IBM, I worked principally in
10 the areas of strategic planning, pricing and implementation.

11 I received my MBA from Wright State University in Dayton, Ohio, in 1979. I
12 received a BA in 1975 from the Christopher Newport College of the College of
13 William and Mary. I have taken additional computer science courses from the
14 University of Colorado.

1 I. PURPOSE AND SCOPE OF TESTIMONY

2 The purpose of my testimony and library references OCA-LR-4, OCA-LR-6
3 and OCA-LR-7, (filed concurrently with this testimony) is to explain the procedures I
4 followed to update the Commission's version of the Postal Service cost model. I
5 further explain how the updated cost model is used as a starting point in replicating
6 the Postal Service's Base Year (FY 1996), FY 1997, and the Test Year (FY 1998)
7 data as shown in the exhibits and workpapers of Postal Service witnesses
8 Alexandrovich and Patelunas.¹ The updated cost model results are presented in
9 exhibits OCA 101 through OCA 106 of this testimony. Exhibit OCA 107 provides a
10 comparison of the Postal Service's data with my results. Also, my testimony
11 provides the commands for executing the updated Commission cost model.
12 General instructions appear in Appendix A and a brief discussion of the Base Year
13 files listed in that appendix is provided in Appendix B. The files needed to prepare
14 FY 1997 and the Test Year data follow a labeling convention similar to that used for
15 the Base Year files. Therefore, it is not necessary to repeat discussions for each
16 year. Detailed discussions of each file are provided in OCA-LR-4, OCA-LR-6 and

¹ See USPS-T-5, Workpaper A, and USPS-T-5, Exhibit USPS-5A at 1, and the workpapers accompanying USPS-T-15 testimony. Differences between the Postal Service's and the OCA's updated Commission model results are minor and appear to be due to rounding.

1 OCA-LR-7.

2 I was tasked with updating the Commission's cost model for this proceeding.
3 OCA library references OCA-LR-4, OCA-LR-6 and OCA-LR-7 document the update
4 process. Exhibits OCA 101 through OCA 107 demonstrate that in using the
5 Commission's updated cost model, I have independently verified the Postal Service
6 cost calculations.² Also, my testimony and library references OCA-LR-4, OCA-LR-6
7 and OCA-LR-7 make available to intervenors a personal-computer-based cost
8 model that may be used to replicate Postal Service costs and examine alternatives.

² Any errors or omissions made by the Postal Service in preparing cost data are replicated in my cost data.

1 II. THE COMMISSION'S COST MODEL PROGRAM

2 In Docket No. R80-1, the Commission developed and used a separate set of
3 programs to serve as its cost model.³ The programs were developed in response to
4 the Postal Service's failure to provide the Commission a cost model program. To
5 date, the Postal Service has never provided a cost model program that gives
6 participants the capability of measuring the impact adjustments or changes would
7 have on costs.

8 The Commission updated its cost model in Docket No. R84-1 and in
9 subsequent dockets. In Docket No. R84-1, the Commission stated "the best way to
10 validate the assumptions and data inputs of such a complex [Postal Service] model
11 [is] to independently replicate each series of calculations made by the model."⁴ As a
12 result, the Commission has provided updated copies of its cost model and all
13 associated files as library references to its recommended opinions and decisions.⁵

14 However, the Commission's cost model operating instructions and
15 documentation require a degree of familiarity with the Postal Service's costing

³ See PRC Op. R80-1, Appendix E at 1-6, for a discussion of the Commission's reasoning.

⁴ See PRC Op. R84-1, Appendix E at 3. The Commission also stated, "a considerably more compact and efficient set of programs [than the Postal Service's] could be developed for the Commission's purposes." *Id.* at 2.

⁵ For example, see Docket No. MC96-3, PRC-LR-5.

1 methodology. The cost model documentation in my testimony and library
2 references OCA-LR-4, OCA-LR-6 and OCA-LR-7 provides instructions on executing
3 the Commission's cost model program for those users with minimal knowledge of
4 the Postal Service's costing methodology.

5 A. The Commission's Cost Model Uses Four Programs To Replicate Postal
6 Service Base Year Data

7
8 The four programs used to replicate the Postal Service's Base Year data are
9 XREAD, PRMAT, COSTMOD and LRCOST. XREAD places data from OCA's file
10 BASEYEAR.DAT⁶ into a matrix and writes out a data file called BASEYEAR.BIN.
11 BASEYEAR.BIN contains data equivalent to the Postal Service's Base Year Manual
12 Input Requirement⁷ in a format readable by the Commission's cost model.

13 PRMAT transmits the results of running the Commission's cost model either
14 to a computer screen or to a temporary output file. COSTMOD and LRCOST build
15 distribution keys and use the Postal Service variabilities provided to witnesses

⁶ The Commission's cost model program requires data input similar to the Postal Service's Manual Input Requirement. USPS-T-5, Workpaper A, Manual Input Requirement at 1-104.1. However, the data files provided by the Postal Service are not compatible with the Commission's cost model program XREAD. Therefore, the Postal Service's data file must first be converted into a format that is compatible. The conversion process starts with a SAS program that creates a data file called BASEYEAR.DAT. The conversion process is described in further detail in OCA-LR-3.

⁷ Docket No. R97-1, USPS-T-5, Workpaper A-1 at 1-104.1.

1 Alexandrovich and Patelunas to distribute costs to the various classes and
2 subclasses of mail.

3 B. The Commission's Cost Model Is Easily Run

4 In this docket, I updated the Commission's cost model to reflect the Postal
5 Service's costing methodology changes. A list of the few commands needed to run
6 the cost model is provided in Appendix A. A copy of the updated programs and
7 associated files are provided in OCA-LR-4, OCA-LR-6 and OCA-LR-7. When the
8 updated programs and files are used, running the Commission's cost model is easy.

9 C. The Commission's Cost Model Replicates The Postal Service's Data

10 I compared the printout of BASEYEAR.BIN produced by the Commission's
11 program XREAD and confirmed that the results are comparable to USPS-T-5,
12 Workpaper A-1, Manual Input Requirement at 1-104.1. I compared the printout of
13 BY96LP.BIN produced by the Commission's program COSTMOD and confirmed
14 that the results replicated USPS-T-5, Workpaper A-1, A Report Cost Segment
15 Summary Table at 5-12.1.

16 I then prepared exhibit OCA 101 with data from BY96LP.LR (produced by the
17 Commission's updated LRCOST program) and confirmed that the results compare
18 satisfactorily with USPS-T-5, Workpaper A-4, B Report Cost Segment Summary at

1 1-4.1. I prepared exhibit OCA 102 with data from BY96LP.LR and confirmed that
2 the results are comparable to USPS-T-5, USPS-5A at 1-8.1.

3 Using the Commission's program, I rolled forward the Base Year data to FY
4 1997 and then to FY 1998 -- the Test Year. Each FY 1997 and FY 1998 program
5 run was compared with the workpapers provided by Postal Service witness
6 Patelunas. My program run results are provided in exhibits OCA 103 through OCA
7 106. Exhibit OCA 107 compares OCA's Test Year results with those presented by
8 USPS witness Patelunas at USPS-T-15, WP G, Table D at 1-8.

1 III. CONCLUSION

2 The Commission's updated cost model replicates the Postal Service's cost
3 data presented in exhibits USPS-5A at 1-8.1 and exhibits USPS-15E at 1-8. A
4 complete set of the programs and all associated files as well as documentation are
5 provided in OCA-LR-4, OCA-LR-6 and OCA-LR-7. With the few commands listed in
6 Appendix A attached to this testimony, running the updated cost model is simple.
7 Additional runs of the Base Year cost model programs are facilitated by using the
8 batch file STARTUP.BAT.⁸ The programs and files provided in OCA-LR-4, OCA-
9 LR-6 and OCA-LR-7 provide a personal-computer-based cost model that users may
10 operate to confirm the Postal Service's cost data. Modifications also may be made
11 to the cost data to examine alternative cost allocations.

⁸ The file STARTUP.BAT contains all the Base Year commands needed to run the Commission's cost model after each instruction has been manually typed and executed once. Batch files were not created for FY 1997 or FY 1998. See Appendix B, Program Notes.

APPENDICES

APPENDIX A

COMMISSION COST MODEL OPERATION

Create a "\tmp" directory on the root of the drive being used. The "\tmp" directory is required by the "lp" program called by the batch file PRTROLL.¹ Copy all of the files provided in OCA-LR-4 into one DOS subdirectory. Copy all of the files provided in OCA-LR-6 into a separate DOS subdirectory. Copy all of the files provided in OCA-LR-7 into a third DOS subdirectory. The files do not need to be put in the "\tmp" directory. After all files have been copied into a DOS subdirectory, type the following commands to execute the Commission's cost model programs. Each row of instructions listed below represents one line of commands. Follow each row of instructions with a carriage return (<ENTER>).

Commands for the Base Year:

XREAD BASEYEAR.DAT

COSTMOD BASEYEAR.BIN BY96CP.FAC 2101 2101 BY96ACP.BIN < SCRIPT

LRCOST BY96ACP.BIN SR1116.FAC BY96CP.FAC BY96CP.BIN² < SCRIPT3

COPY OCARIP1.DAT RIPDAT1³

¹ For more information see OCA-LR-4.

² After executing the command, the program will print the following screen prompt, "Write file by96cp.bin?" Type "Y" to save to the results. Press the <Enter> key and continue.

³ Whenever the screen prompt "Overwrite ripdat1 (Yes/No/All)?" appears, type "Y". Press the <Enter> key and continue.

Appendix A
Page 2 of 4

COSTMOD BY96CP.BIN BYRIP 2101 2101 BY96RP.BIN < SCRIPT3
LRCOST BY96RP.BIN SEG3SR.FAC BY96CP.FAC BY96ARP.BIN < SCRIPT3
COPY OCARIP2.DAT RIPDAT1
COSTMOD BY96ARP.BIN BYRIP 2101 2101 BY96BRP.BIN < SCRIPT3
COPY OCARIP3.DAT RIPDAT1
LRCOST BY96BRP.BIN HLSDIST.FAC BY96CP.FAC BY96CRP.BIN < SCRIPT3
COSTMOD BY96CRP.BIN BYRIP 2101 2101 BY96LP.BIN < SCRIPT3
LRCOST BY96LP.BIN PESSA96P.FAC BY96CP.FAC BY96LP.LR < SCRIPT3⁴

Commands for the roll forward to FY 97:

COPY RIPDAT1.DAT RIPDAT1⁵
COSTMOD BY96LP.BIN FY97CP.FAC 2101 2102 FY97BR.BIN⁶
COPY VOLRIP1.DAT RIPDAT1⁷

⁴ Copy the BY96LP.BIN file to the DOS subdirectory containing the OCA-LR-6 files.

⁵ The cost model looks for either a RIPDAT1 or RIPDAT file.

⁶ After executing the command, the program will print screen prompts, "Write file ...?" Respond "Y" to all prompts except "Write file by96lp.ad?". There are no adjustments (...ad).

⁷ See USPS-LR-6. Respond "Y" to the query "Overwrite ripdat1 ...?"

COSTMOD FY97BR.BIN FY97VCP.FAC 2102 2102⁸ FY97VBR.BIN⁹

COSTMOD FY97VBR.BIN¹⁰ FY97MCP.FAC 2102 2102 FY97MBR.BIN¹¹

LRCOST FY97MBR.BIN PESSA97P.FAC FY97CP.FAC FY97LP.LR¹²

Commands for the Test Year:

COPY RIPDAT1.DAT RIPDAT1

COSTMOD FY97VBR.BIN FY98CP.FAC 2102 2104 FY98BR.BIN¹³

⁸ The same volume components are listed because volumes do not change.

⁹ When COSTMOD runs, screen prompts appear. When the screen prompt "Write file fy97br.cr?" appears, respond "Y" to save the results of the volume mix adjustment for later viewing and printing. When the screen prompt "Write file fy97vbr.bin?" appears, respond "Y" to save the final results of the FY 97 volume mix adjustments. Respond "N" to all other "Write file ...?" queries.

¹⁰ Copy the FY97VBR.BIN file into the DOS subdirectory containing the OCA-LR-7 files.

¹¹ When the screen prompt "Write file fy97vbr.cr?" appears, respond "Y" to save the results of the ^{Volume}workyear mix adjustment for later viewing and printing. When the screen prompt "Write file fy97mbr.bin?" appears, respond "Y" to save the final results of the FY 97 workyear mix adjustments. Respond "N" to all other "Write file ...?" queries.

¹² When the screen prompt "Write file fy97lp.lr?" appears, respond "Y" to save the final FY 97 results.

¹³ When the screen prompts appear, respond "Y" to the following effects: the cost level (...cl), the mail volume (...mv), the non-volume workload (...nv), the cost reduction (...cr) and other programs (...op). When the screen prompt "Write file fy98br.bin?" appears, respond "Y" to save the results.

COSTMOD FY98BR.BIN FY98WCP.FAC 2104 2104 FY98WLP.LR¹⁴

LRCOST FY98WLP.LR PESSA98P.FAC FY98CP.FAC FY98LP.LR ¹⁵

To view the cost model results, refer to the documentation provided in OCA-LR-4, section V. B. See OCA-LR-6.

¹⁴ When the screen prompt appears, respond "Y" to the cost reduction (...cr). When the screen prompt "Write file fy98wlp.lr?" appears, respond "Y" to save the results.

¹⁵ When the screen prompt "Write file fy98lp.lr?" appears, respond "Y" to save the final results.

APPENDIX B
PROGRAM NOTES

There are several types of files used by the four Commission cost model programs. A detailed explanation of the files and how they were updated is provided in OCA-LR-4, OCA-LR-6 and OCA-LR-7. More files^{are} needed to replicate the Base Year data then are required to develop the FY 97 or FY 98 information. The computer file names used in FY 97 and FY 98 are similar to those used in the Base Year. Therefore, only a brief discussion of the Base Year files appearing in Appendix A follows.

During execution, the Commission's cost model programs prompt whether a specific file should be saved. To continue program execution, either a computer file or a terminal operator must respond to the program prompts. Therefore, to avoid sitting at a terminal and responding to individual prompts, two files, SCRIPT and SCRIPT3, are used when executing the program commands. See Appendix A.

The Commission's cost model programs receive instructions for distributing costs to the various classes and subclasses of mail via five different factor files. At the start of a docket, each factor file is reviewed and updated as appropriate. In this docket, the information needed to update the files is provided in USPS-T-5, Workpaper A. Each Commission factor file is identified by a ".FAC" file extension.

Appendix B
Page 2 of 2

The five Base Year factor files are: BY96CP.FAC, HLSDIST.FAC, PESSA96P.FAC, SEG3SR.FAC and SR1116.FAC. Each factor file is used as shown in the list of program executable commands provided in Appendix A. Additional information on updating the factor files is provided in library references OCA-LR-4, OCA-LR-6 and OCA-LR-7.

The Commission's cost model programs also receive program instructions from "ripple" files. PRC Op. R84-1, Appendix E at 11. In this docket, the three Base Year OCA "ripple" files created are named OCARIP1.DAT, OCARIP2.DAT and OCARIP3.DAT. Each "ripple" file is used as shown in the list of program executable commands provided in Appendix A.

EXHIBITS

Docket No. R97-1
OCA's Base Year 1996 "B Report Summary"

	<u>C/S 2</u>	<u>C/S 3</u>	<u>C/S 11</u>	<u>C/S 15</u>	<u>C/S 16</u>	<u>C/S 18</u>	<u>C/S 20</u>	<u>Total</u>
1-LETTERS&PARCELS	396	1,324	240,325	273,161	211,760	485,560	808,659	2,021,185
PRESORT LET & PAR	111	369	66,998	77,075	59,034	153,722	248,457	605,766
SINGLE PC CARDS	12	42	7,568	8,852	6,669	17,813	25,585	66,541
PRESORT PRI CARDS	4	12	2,167	2,515	1,910	5,386	7,710	19,704
PRIORITY	58	195	35,328	39,640	31,129	44,187	66,125	216,662
EXPRESS	14	47	8,446	10,130	7,442	11,749	18,819	56,647
MAILGRAM	-	-	6	7	5	18	25	61
2-IN COUNTY	2	7	1,320	1,533	1,163	3,310	3,932	11,267
REGULAR RATE	47	157	28,471	31,570	25,087	52,456	71,364	209,152
NONPROFIT	9	30	5,471	6,161	4,821	11,342	14,959	42,793
CLASSROOM	1	2	316	345	279	557	802	2,302
3-SINGLE PIECE	7	23	4,209	4,681	3,708	6,957	11,294	30,879
BRR CAR PRESORT	51	170	30,849	36,096	27,182	77,893	98,199	270,440
BRR OTHER	146	486	88,212	99,194	77,727	169,260	258,216	693,241
BRNP CAR PRESORT	4	14	2,539	2,937	2,237	5,694	7,900	21,325
BRNP OTHER	32	107	19,491	22,062	17,175	39,783	60,649	159,299
4-ZONE RATE PARCELS	23	76	13,775	14,928	12,138	16,460	30,963	88,363
BND PRNTD MATTER	11	36	6,503	7,253	5,730	9,801	16,924	46,258
SPECIAL RATE	10	33	5,986	6,641	5,274	7,351	14,073	39,368
LIBRARY RATE	2	7	1,220	1,342	1,075	1,516	2,890	8,052
USPS PENALTY	8	26	4,646	5,223	4,094	8,017	11,227	33,241
FREE FOR BLIND	1	4	680	745	599	986	1,651	4,666
INTERNATIONAL MAIL	19	62	11,273	12,637	9,933	18,796	30,232	82,952
SS-REGISTRY	11	38	6,903	8,124	6,082	3,292	8,823	33,273
CERTIFIED	11	37	6,734	8,180	5,933	12,517	15,487	48,899
INSURANCE	1	4	679	828	598	1,110	1,409	4,629
COD	1	3	526	634	464	766	1,035	3,429
SPECIAL DEL	-	-	53	65	47	146	248	559
MONEY ORDERS	6	20	3,598	4,417	3,171	5,250	6,957	23,419
STAMPED ENVLPS	-	-	62	76	54	87	118	397
SPECIAL HNDLG	-	-	46	54	41	49	81	271
POS OFFICE BOX	171	572	103,922	129,977	91,570	18,523	108,171	452,906
OTHER	7	25	4,502	5,109	3,967	6,286	10,370	30,266
TTL VOLUME VAR.	1,176	3,927	712,827	822,189	628,099	1,196,645	1,963,359	5,328,222
OTHER	-	-	456,586	161,467	402,316	510,350	1,244,562	2,775,281
TOTAL COSTS	1,176	3,927	1,169,413	983,656	1,030,415	1,706,995	3,207,921	8,103,503

Source: OCA's BY96LP.LR file Segment 23 and Segment 24 Data

Docket No R97-1
OCA's Base Year 1996

	<u>C/S 1</u>	<u>C/S 2</u>	<u>C/S 3</u>	<u>C/S 4</u>	<u>C/S 6 & 7</u>	<u>C/S 8</u>	<u>C/S 9</u>	<u>C/S 10</u>	<u>C/S 11</u>	<u>C/S 12</u>	<u>C/S 13</u>	<u>C/S 14</u>
1-LETTERS&PARCELS	113,133	662,802	5,566,301	2,482	1,873,759	28,868	690	296,468	573,319	35,857	2,102	571,407
PRESORT LET & PAR	57,877	194,295	1,194,691	567	1,018,479	18,328	314	263,567	152,605	17,107	1,200	238,955
SINGLE PC CARDS	3,348	24,391	183,380	73	89,370	230	37	19,248	16,471	1,855	104	8,321
PRESORT PRI CARDS	1,769	6,760	41,350	19	36,404	182	17	11,053	4,407	563	45	2,147
PRIORITY	17,725	60,157	540,854	111	107,438	20,420	954	12,979	40,870	12,323	120	526,355
EXPRESS	3,933	16,012	112,438	-	21,374	1,487	43,550	4,729	8,935	7,967	277	58,100
MAILGRAM	-	24	89	-	167	1	46	11	6	27	-	-
2-IN COUNTY	404	3,673	17,388	3	23,498	2,305	3	13,610	1,540	908	28	58
REGULAR RATE	8,432	68,180	496,961	84	223,670	30,135	23	108,288	42,181	9,874	260	248,294
NONPROFIT	1,753	13,945	88,934	15	59,628	6,000	5	34,191	8,140	2,323	71	58,922
CLASSROOM	50	716	6,004	1	1,856	290	-	913	522	90	2	2,080
3-SINGLE PIECE	723	10,741	82,068	19	25,799	429	7	1,149	8,085	993	28	26,144
BRR CAR PRESORT	22,945	84,597	305,920	64	716,279	38,428	5	259,640	42,646	19,563	801	50,025
BRR OTHER	33,755	210,878	1,605,823	373	809,642	37,843	7	304,392	185,137	18,860	964	253,948
BRNP CAR PRESORT	1,290	6,589	32,441	7	46,962	1,942	-	13,834	4,068	1,136	58	8,082
BRNP OTHER	5,788	49,979	385,597	89	191,939	6,362	3	70,010	37,379	3,877	238	50,708
4-ZONE RATE PARCELS	3,690	21,433	168,662	-	42,935	25,779	39	9,804	23,801	7,723	51	304,888
BND PRINTED MATTER	2,392	12,478	76,321	-	51,221	13,655	3	10,381	11,530	7,497	58	53,117
SPECIAL RATE	1,787	9,238	72,259	-	27,691	4,983	3	5,199	11,604	2,931	32	51,595
LIBRARY RATE	256	1,920	16,452	-	4,585	625	3	1,243	2,399	477	5	11,817
USPS PENALTY	-	13,184	112,770	-	13,402	1,147	1	1,537	7,358	451	15	11,921
FREE FOR BLIND	-	1,350	11,042	-	3,222	524	-	671	1,321	154	4	3,412
INTERNATIONAL MAIL	7,363	26,127	252,743	-	23,042	5,592	8,029	2,585	23,008	3,308	73	715,723
SS-REGISTRY	605	3,454	31,718	15	7,043	-	47	2,335	7,281	141	11	-
CERTIFIED	2,981	13,244	63,305	15	93,597	-	-	54,058	8,909	992	142	-
INSURANCE	263	1,539	12,818	1	2,580	-	-	2,738	685	29	4	-
COD	114	800	5,968	2	2,799	-	4	3,874	540	45	4	-
SPECIAL DEL	20	185	215	-	644	-	1,341	219	56	231	8	-
MONEY ORDERS	1,161	8,676	82,277	-	-	-	-	1,233	3,598	1	-	-
STAMPED ENVLPS	65	141	1,341	-	-	-	-	-	62	-	-	-
SPECIAL HNDLG	2	76	754	-	-	-	-	-	54	-	-	-
POS OFFICE BOX	3,044	7,013	65,299	-	329	-	-	-	103,922	3	-	-
OTHER	-	10,253	89,525	82	7,972	-	18	28	7,834	188	9	-
TTL VOLUME VAR.	296,508	1,544,846	11,723,708	4,002	5,527,320	245,555	55,149	1,509,985	1,318,318	157,093	6,818	3,251,823
OTHER	1,368,017	1,736,126	4,732,391	5,331	5,934,155	164,729	50,486	1,867,077	795,260	444,340	286,604	505,898
TOTAL COSTS	1,664,525	3,280,972	16,456,099	9,333	11,461,475	410,284	105,635	3,377,062	2,113,576	601,433	273,420	3,757,719

Source OCA's BY98LP LR file

Docket No. R97-1
OCA's Base Year 1996

	<u>C/S 15</u>	<u>C/S 16</u>	<u>C/S 17</u>	<u>C/S 18</u>	<u>C/S 19</u>	<u>C/S 20</u>	<u>TOTAL</u>
1-LETTERS&PARCELS	273,161	549,395	-	688,222	-	808,659	12,046,625
PRESORT LET & PAR	77,075	102,750	-	218,460	-	248,457	3,804,533
SINGLE PC CARDS	8,852	22,742	-	25,327	-	25,585	429,134
PRESORT PRI CARDS	2,515	3,396	-	7,666	-	7,710	126,003
PRIORITY	39,640	76,390	-	61,774	-	66,125	1,584,233
EXPRESS	10,130	19,888	-	16,485	-	19,318	342,623
MAILGRAM	7	6	-	26	-	25	435
2-IN COUNTY	1,533	1,462	-	4,711	-	3,932	75,052
REGULAR RATE	31,570	35,398	-	74,190	-	71,364	1,448,904
NONPROFIT	6,161	6,636	-	16,085	-	14,959	317,766
CLASSROOM	345	408	-	787	-	802	14,876
3-SINGLE PIECE	4,681	6,370	-	9,812	-	11,294	188,350
BRR CAR PRESORT	36,096	35,726	-	110,894	-	98,199	1,821,928
BRR OTHER	99,194	125,711	-	239,623	-	258,216	4,164,364
BRNP CAR PRESORT	2,937	3,217	-	8,089	-	7,900	136,572
BRNP OTHER	22,062	28,840	-	56,401	-	60,649	969,717
4-ZONE RATE PARCELS	14,928	17,535	-	22,972	-	30,963	695,001
BND PRINTED MATTER	7,253	8,417	-	13,787	-	16,924	285,034
SPECIAL RATE	6,641	8,220	-	10,270	-	14,073	226,526
LIBRARY RATE	1,342	1,703	-	2,119	-	2,890	47,836
USPS PENALTY	5,223	6,538	-	11,320	-	11,227	196,094
FREE FOR BLIND	745	927	-	1,385	-	1,651	26,408
INTERNATIONAL MAIL	12,637	21,182	-	26,515	-	30,595	1,158,520
SS-REGISTRY	8,124	6,456	-	4,332	-	11,524	83,096
CERTIFIED	8,180	6,398	-	17,708	-	15,487	283,016
INSURANCE	828	613	-	1,565	-	12,636	36,299
COD	634	498	-	1,076	-	3,327	19,685
SPECIAL DEL	65	47	-	208	-	248	3,487
MONEY ORDERS	4,417	7,167	-	7,479	-	6,957	122,986
STAMPED ENVLPS	76	8,982	-	123	-	118	10,928
SPECIAL HNDLG	54	47	-	68	-	81	1,136
POS OFFICE BOX	129,977	91,570	-	20,231	-	108,171	529,559
OTHER	5,109	6,031	-	8,822	-	10,370	146,219
TTL VOLUME VAR.	822,189	1,210,667	-	1,688,536	-	1,980,441	31,342,954
OTHER	477,476	1,186,195	55,466	2,650,011	35,654	1,358,429	23,633,643
TOTAL COSTS	1,299,665	2,396,862	55,466	4,338,547	35,654	3,338,870	54,976,597

Source: OCA's BY96LP.LR file.

Docket No. R97-1
OCA's FY 1997 "B Report Summary"

	C/S 2	C/S 3	C/S 11	C/S 15	C/S 16	C/S 18	C/S 20	TOTAL
1-LETTERS&PARCELS	295	1,005	239,908	291,971	222,951	520,488	814,445	2,091,063
PRESORT LTR&PARCELS	36	124	68,203	83,814	63,383	166,044	252,266	633,870
SINGLE PC CARDS	(2)	(7)	7,447	9,336	6,921	18,984	25,932	68,611
PRESORT PRI CARDS	-	1	2,610	3,235	2,425	7,011	9,517	24,799
PRIORITY	74	253	38,667	46,067	35,934	53,990	77,889	252,874
EXPRESS	18	60	8,808	11,265	8,186	13,460	20,676	62,473
MAILGRAM	-	-	7	10	7	28	36	88
PERIODICAL-IN CNTY	3	9	1,390	1,721	1,292	3,826	4,416	12,657
REGULAR RATE	54	185	28,773	33,968	26,739	58,221	76,850	224,790
NONPROFIT	10	34	5,410	6,488	5,028	12,266	15,721	44,977
CLASSROOM	1	2	326	378	303	630	874	2,514
STD A-SINGLE PIECE	10	33	4,672	5,544	4,341	8,490	13,305	36,395
REG ENH CAR RTE	72	246	32,849	41,021	30,527	90,782	108,690	305,187
REG STD OTHER	150	510	93,663	112,248	87,043	193,992	285,258	772,864
NP ENH CAR RTE	5	17	2,698	3,328	2,507	6,615	8,685	23,855
NP STD OTHER	25	85	20,677	24,944	19,215	45,314	66,048	176,308
STD B-PARCELS ZONE	17	59	14,557	16,765	13,527	18,947	34,399	98,271
BND PRNTD MATTER	13	45	6,651	7,897	6,181	11,076	18,438	50,301
SPECIAL RATE	12	40	6,039	7,130	5,813	8,183	15,300	42,317
LIBRARY RATE	2	7	1,097	1,285	1,020	1,503	2,787	7,701
USPS PENALTY	9	32	4,343	5,208	4,036	8,274	11,265	33,167
FREE FOR BLIND	1	5	697	812	648	1,108	1,811	5,082
INTERNATIONAL MAIL	(3)	(12)	10,092	12,073	9,379	17,890	28,076	77,495
SS-REGISTRY	12	40	6,846	8,595	6,363	3,338	9,087	34,281
CERTIFIED	16	54	7,221	9,365	6,711	14,640	17,607	55,614
INSURANCE	2	5	741	965	688	1,314	1,607	5,322
COD	1	3	469	603	435	745	977	3,233
SPECIAL DEL	-	-	17	21	15	46	77	176
MONEY ORDERS	7	26	3,691	4,835	3,430	5,820	7,401	25,210
STAMPED ENVELOPES	-	-	53	69	49	83	106	360
SPECIAL HNDLG	-	-	46	57	43	53	85	284
POS OFFICE BOX	174	593	105,535	140,941	98,076	19,284	108,843	473,446
OTHER	9	30	4,478	5,420	4,161	6,854	10,927	31,879
TTL VOLUME VAR.	1,023	3,482	728,681	897,381	677,177	1,319,311	2,050,406	5,677,461
OTHER	-	-	462,795	161,564	430,085	556,926	1,408,084	3,019,454
TOTAL COSTS	1,023	3,482	1,191,476	1,058,945	1,107,262	1,876,237	3,458,490	8,696,915

Source: OCA's FY97LP.LR file segment 23 data.

Docket No. R97-1
OCA's FY 1997

	<u>C/S 1</u>	<u>C/S 2</u>	<u>C/S 3</u>	<u>C/S 4</u>	<u>C/S 6 & 7</u>	<u>C/S 8</u>	<u>C/S 9</u>	<u>C/S 10</u>	<u>C/S 11</u>	<u>C/S 12</u>	<u>C/S 13</u>	<u>C/S 14</u>
1-LETTERS&PARCELS	113,282	867,609	5,617,645	2,574	1,863,578	29,755	712	304,612	592,917	36,572	2,224	622,702
PRESORT LTR&PARCELS	58,248	198,753	1,253,624	593	978,987	19,056	327	273,176	160,947	17,583	1,287	283,329
SINGLE PC CARDS	3,377	24,907	183,054	78	88,638	239	38	19,923	16,891	1,693	111	9,152
PRESORT PRI CARDS	2,151	8,386	52,008	24	42,521	228	21	13,794	5,520	683	57	2,838
PRIORITY	19,978	88,673	628,500	130	124,139	23,698	1,109	15,014	45,165	13,045	142	647,368
EXPRESS	4,149	17,107	122,459	-	23,016	1,615	47,378	5,120	9,339	8,472	308	64,429
MAILGRAM	-	33	125	-	233	1	65	15	8	34	1	-
PERIODICAL-IN CNTY	429	3,952	18,896	3	25,558	2,519	3	14,827	1,637	951	31	64
REGULAR RATE	8,591	70,418	520,012	89	233,751	31,611	24	113,234	43,329	10,157	280	288,587
NONPROFIT	1,743	14,053	90,644	15	60,737	6,141	5	34,887	8,163	2,368	75	62,224
CLASSROOM	52	754	6,403	1	1,979	310	-	973	547	93	2	2,308
STD A-SINGLE PIECE	807	12,146	94,455	22	29,820	493	8	1,318	9,214	1,089	31	31,279
REG ENH CAR RTE	24,389	91,527	342,175	70	781,684	42,054	5	283,240	46,149	20,864	1,012	56,771
REG STD OTHER	36,011	225,729	1,738,633	412	863,533	41,565	8	333,278	179,867	20,001	1,068	288,422
NP ENH CAR RTE	1,364	7,143	35,924	8	50,949	2,114	-	15,011	4,425	1,198	65	6,793
NP STD OTHER	6,180	53,440	412,722	98	203,292	6,994	3	76,721	40,847	3,919	266	57,729
STD B-PARCELS ZONE	3,879	23,403	180,911	-	47,607	28,617	43	10,849	25,860	7,998	58	324,819
BND PRINTED MATTER	2,479	13,071	81,554	-	54,268	14,570	3	11,041	12,010	7,687	63	59,051
SPECIAL RATE	1,829	9,574	76,333	-	29,079	5,251	3	5,462	11,947	3,005	35	56,208
LIBRARY RATE	233	1,772	15,470	-	4,290	587	3	1,163	2,201	489	5	11,475
USPS PENALTY	-	12,558	109,658	-	12,979	1,109	1	1,482	7,007	448	15	12,153
FREE FOR BLIND	-	1,410	11,715	-	3,426	556	-	710	1,380	158	5	3,759
INTERNATIONAL MAIL	6,715	24,132	222,941	-	21,559	5,251	7,551	2,420	21,238	3,232	70	713,306
SS-REGISTRY	581	3,252	30,498	14	6,744	-	45	2,224	7,217	138	11	-
CERTIFIED	3,200	14,413	70,480	17	103,699	-	-	59,549	7,427	1,088	161	-
INSURANCE	288	1,898	14,383	1	2,883	-	-	3,052	747	32	5	-
COD	102	724	5,511	2	2,576	-	4	3,546	482	43	4	-
SPECIAL DEL	8	54	64	-	191	-	397	65	18	85	2	-
MONEY ORDERS	1,201	8,945	86,447	-	-	-	-	1,287	3,891	1	-	-
STAMPED ENVELOPES	73	122	1,184	-	-	-	-	-	53	-	-	-
SPECIAL HNDLG	2	77	775	-	-	-	-	-	55	-	-	-
POS OFFICE BOX	3,195	7,455	70,785	-	358	-	-	-	105,535	4	-	-
OTHER	-	10,371	91,974	64	8,209	-	19	27	7,943	192	9	-
TTL VOLUME VAR.	304,591	1,597,859	12,188,160	4,215	5,668,093	264,333	57,777	1,608,017	1,379,578	163,090	7,423	3,564,765
OTHER	1,364,346	1,757,899	4,876,555	5,507	6,148,240	169,126	51,918	1,967,814	809,351	456,246	271,680	547,923
TOTAL COSTS	1,668,937	3,355,558	17,062,715	9,722	11,816,333	433,459	109,695	3,575,830	2,188,929	619,338	279,083	4,112,687

Source: OCA's FY97LP.LR file segment 23 & 24 data

Docket No. R97-1
OCA's FY 1997

	C/S 15	C/S 16	C/S 17	C/S 18	C/S 19	C/S 20	TOTAL
1-LETTERS&PARCELS	291,971	457,125	-	674,823	-	814,445	12,092,526
PRESORT LTR&PAR	83,814	90,329	-	215,518	-	252,266	3,865,839
SINGLE PC CARDS	9,336	19,137	-	24,666	-	25,932	427,170
PRESORT PRI CARDS	3,235	3,523	-	9,111	-	9,517	153,615
PRIORITY	46,067	114,330	-	69,325	-	77,889	1,894,570
EXPRESS	11,265	31,059	-	17,356	-	21,219	384,291
MAILGRAM	10	9	-	36	-	36	606
PERIODICAL-IN CNTY	1,721	1,549	-	4,973	-	4,416	81,529
REGULAR RATE	33,968	35,038	-	75,290	-	76,850	1,521,229
NONPROFIT	6,488	6,487	-	15,916	-	15,721	325,667
CLASSROOM	378	411	-	814	-	874	15,899
STD A-SINGLE PIECE	5,544	6,395	-	10,945	-	13,305	216,649
REG ENH CAR RTE	41,021	37,129	-	118,081	-	109,690	1,995,661
REG STD OTHER	112,248	124,604	-	251,351	-	285,258	4,500,208
NP ENH CAR RTE	3,328	3,353	-	8,582	-	8,685	148,942
NP STD OTHER	24,944	28,559	-	58,755	-	66,048	1,040,517
STD B-PARCELS ZONE	16,765	18,233	-	24,213	-	34,399	747,552
BND PRNTE MATTER	7,897	8,433	-	14,222	-	18,438	304,797
SPECIAL RATE	7,130	8,052	-	10,488	-	15,300	239,696
LIBRARY RATE	1,285	1,483	-	1,929	-	2,787	45,152
USPS PENALTY	5,208	5,618	-	10,665	-	11,265	190,166
FREE FOR BLIND	812	921	-	1,426	-	1,811	28,089
INTERNATIONAL MAIL	12,073	17,091	-	23,093	-	28,417	1,109,089
SS-REGISTRY	8,595	6,643	-	4,094	-	11,672	81,706
CERTIFIED	9,365	7,025	-	19,028	-	17,607	313,059
INSURANCE	965	701	-	1,702	-	14,185	40,648
COD	603	460	-	960	-	3,086	18,103
SPECIAL DEL	21	15	-	60	-	77	1,055
MONEY ORDERS	4,835	6,846	-	7,620	-	7,401	128,274
STAMPED ENVEL	69	7,026	-	107	-	106	8,740
SPECIAL HNDLG	57	48	-	68	-	85	1,167
POS OFFICE BOX	140,941	98,076	-	20,690	-	108,843	555,880
OTHER	5,420	5,585	-	8,794	-	10,927	149,534
TTL VOLUME VAR.	897,379	1,151,296	-	1,704,693	-	2,068,557	32,627,626
OTHER	514,857	1,555,783	54,211	2,461,626	36,405	1,578,745	24,628,212
TOTAL COSTS	1,412,236	2,707,079	54,211	4,166,319	36,405	3,647,302	57,255,836

Source: OCA's FY97LP.LR file segment 23 & 24 data .

Docket No R97-1
OCA's FY 1998 "B Report Summary"

	C/S 2	C/S 3	C/S 11	C/S 15	C/S 16	C/S 18	C/S 20	TOTAL
1-LETTERS&PARCELS	253	853	244,493	301,960	276,543	546,825	903,422	2,274,349
PRESORT LTR&PARCELS	(113)	(382)	70,650	87,918	79,911	174,552	283,344	695,880
SINGLE PC CARDS	(12)	(40)	7,520	9,564	8,505	19,398	27,694	72,629
PRESORT PRI CARDS	(6)	(20)	2,697	3,387	3,050	7,352	10,445	26,905
PRIORITY	15	50	40,285	48,713	45,566	55,416	82,153	272,198
EXPRESS	23	77	9,351	12,142	10,577	14,938	22,440	69,548
MAILGRAM	-	-	6	9	8	24	32	79
PERIODICAL-IN CNTY	2	8	1,372	1,725	1,551	3,892	4,409	12,959
REGULAR RATE	54	183	29,255	35,056	33,090	61,402	81,261	240,301
NONPROFIT	10	33	5,411	6,589	6,121	12,718	16,287	47,169
CLASSROOM	-	2	256	301	289	512	724	2,084
STD A-SINGLE PIECE	12	39	4,705	5,668	5,321	8,934	14,461	39,140
REG ENH CAR RTE	80	271	31,158	39,547	35,242	88,911	106,577	301,786
REG STD OTHER	138	466	110,201	133,996	124,647	236,490	358,107	964,045
NP ENH CAR RTE	5	16	2,309	2,894	2,612	5,844	7,794	21,474
NP STD OTHER	10	35	22,072	27,010	24,965	49,827	75,459	199,378
STD B-PARCELS ZONE	1	2	14,757	17,231	16,691	19,295	37,023	105,000
BND PRNTE MATTER	16	54	7,048	8,494	7,972	12,286	20,794	56,664
SPECIAL RATE	14	46	6,269	7,511	7,090	8,918	17,217	47,065
LIBRARY RATE	2	8	1,152	1,369	1,303	1,658	3,177	8,669
USPS PENALTY	11	36	3,914	4,767	4,428	7,766	10,682	31,604
FREE FOR BLIND	1	5	769	910	870	1,272	2,146	5,973
INTERNATIONAL MAIL	30	102	10,763	13,074	12,174	21,256	32,700	90,099
SS-REGISTRY	12	42	6,850	8,740	7,748	3,081	9,098	35,571
CERTIFIED	21	71	7,575	9,981	8,568	15,751	18,483	60,450
INSURANCE	2	7	756	1,000	855	1,380	1,639	5,639
COD	1	4	437	569	493	711	915	3,130
SPECIAL DEL	-	-	1	1	1	-	2	5
MONEY ORDERS	12	41	4,181	5,561	4,729	6,818	8,376	29,718
STAMPED ENVELOPES	-	1	54	72	61	88	107	383
SPECIAL HNDLG	-	-	49	63	56	59	96	323
POS OFFICE BOX	186	628	109,721	148,840	124,105	19,606	115,724	518,810
OTHER	10	35	4,617	5,675	5,222	7,287	12,021	34,867
TTL VOLUME VAR.	792	2,671	760,652	950,341	860,367	1,414,265	2,284,812	6,273,900
OTHER	-	-	484,163	166,663	547,633	602,982	1,593,356	3,394,797
TOTAL COSTS	792	2,671	1,244,816	1,117,004	1,407,999	2,017,247	3,878,168	9,668,697

Source: OCA's FY98LP.LR file segment 23 data See also, OCA FY98FIN.XLS.

Docket No. R97-1
OCA's FY 1998

	<u>C/S 1</u>	<u>C/S 2</u>	<u>C/S 3</u>	<u>C/S 4</u>	<u>C/S 6 & 7</u>	<u>C/S 8</u>	<u>C/S 9</u>	<u>C/S 10</u>	<u>C/S 11</u>	<u>C/S 12</u>	<u>C/S 13</u>	<u>C/S 14</u>
1-LETTERS&PARCELS	115,865	891,427	5,743,908	2,644	1,795,578	30,419	729	308,638	620,565	38,014	2,325	645,338
PRESORT LTR & PAR	81,759	213,189	1,347,202	632	898,441	20,192	347	286,875	175,508	18,796	1,395	283,482
SINGLE PC CARDS	3,421	25,537	183,474	78	83,050	242	39	19,991	17,434	1,745	115	9,408
PRESORT PRI CARDS	2,271	8,958	55,135	25	39,837	240	23	14,421	5,978	730	82	3,028
PRIORITY	20,987	72,905	812,314	137	130,873	24,853	1,164	15,808	47,418	13,888	152	700,819
EXPRESS	4,415	18,430	130,774	-	24,589	1,717	50,444	5,398	9,923	9,089	335	89,438
MAILGRAM	-	28	108	-	197	1	55	13	8	31	1	-
PERIODICAL-IN CNTY	423	3,947	18,348	3	25,038	2,483	3	14,488	1,847	873	32	84
REGULAR RATE	8,795	72,994	525,208	91	238,118	32,339	25	114,811	45,029	10,587	293	278,748
NONPROFIT	1,751	14,297	89,820	18	60,807	6,168	5	34,714	8,353	2,444	77	82,920
CLASSROOM	41	803	5,008	1	1,555	245	-	782	438	90	2	1,837
STD A-SINGLE PIECE	817	12,448	95,133	22	30,101	499	8	1,319	8,571	1,104	32	31,885
REG ENH CAR RTE	22,989	87,365	321,888	67	735,410	39,814	5	284,433	44,308	20,472	874	53,838
REG STD OTHER	42,935	272,414	2,055,878	494	987,764	49,525	9	393,561	217,898	22,840	1,325	348,073
NP ENH CAR RTE	1,182	8,184	30,405	7	43,288	1,800	-	12,870	3,858	1,113	57	5,823
NP STD OTHER	8,892	58,574	443,038	107	207,198	7,568	4	82,284	44,847	4,230	295	82,957
STD B-PARCELS ZONE	4,098	24,389	173,242	-	49,298	29,453	45	11,088	28,178	8,321	81	312,117
BND PRINTED MATTER	2,853	14,163	88,877	-	58,315	15,585	3	11,705	12,824	8,090	89	83,582
SPECIAL RATE	1,824	10,187	79,953	-	30,727	5,520	3	5,890	12,481	3,148	38	59,473
LIBRARY RATE	249	1,911	18,393	-	4,595	824	3	1,227	2,330	495	5	12,299
USPS PENALTY	-	11,418	98,702	-	11,898	995	1	1,317	8,482	442	13	11,015
FREE FOR BLIND	-	1,593	12,887	-	3,841	820	-	784	1,553	189	5	4,223
INTERNATIONAL MAIL	7,174	28,131	251,514	-	23,119	5,808	8,072	2,560	27,465	3,422	78	744,578
SS-REGISTRY	473	2,780	28,017	12	5,710	-	38	1,858	7,168	130	10	-
CERTIFIED	3,288	15,002	73,308	17	107,052	-	-	80,814	7,797	1,139	189	-
INSURANCE	288	1,718	14,560	1	2,905	-	-	3,022	782	32	5	-
COD	93	889	5,088	2	2,362	-	3	3,205	449	41	3	-
SPECIAL DEL	-	-	-	-	-	-	-	-	1	25	-	-
MONEY ORDERS	1,330	10,037	97,054	-	-	-	-	1,412	4,181	2	-	-
STAMPED ENVEL	73	124	1,205	-	-	-	-	-	54	-	-	-
SPECIAL HNDLG	2	84	833	-	-	-	-	-	59	-	-	-
POS OFFICE BOX	2,722	8,488	81,217	-	305	-	-	-	109,721	3	-	-
OTHER	-	10,729	93,679	88	8,424	-	19	27	8,319	200	10	-
TTL VOLUME VAR	318,888	1,898,898	12,749,935	4,421	5,809,951	276,307	81,048	1,874,488	1,480,473	171,545	7,938	3,780,845
OTHER	1,393,951	1,821,289	5,009,887	5,650	6,350,589	172,667	53,072	2,047,129	835,247	478,492	283,714	585,577
TOTAL COSTS	1,712,618	3,517,987	17,759,822	10,071	11,960,540	448,974	114,120	3,721,595	2,315,720	648,038	291,850	4,328,522

Source OCA file FY98FIN XLS and OCA-LR-7, file FY98LP LR

Docket No. R97-1
OCA's FY 1998

	C/S 15	C/S 16	C/S 17	C/S 18	C/S 19	C/S 20	TOTAL
1-LETTERS&PARCELS	301,960	580,579	-	711,070	-	903,422	12,492,475
PRESORT LTR & PAR	87,918	108,859	-	229,081	-	283,344	4,017,038
SINGLE PC CARDS	9,564	25,435	-	25,383	-	27,694	432,610
PRESORT PRI CARDS	3,387	4,264	-	9,656	-	10,445	158,456
PRIORITY	48,713	223,692	-	72,168	-	82,153	2,067,600
EXPRESS	12,142	34,642	-	19,249	-	23,020	413,561
MAILGRAM	9	9	-	31	-	32	519
PERIODICAL-IN CNTY	1,725	1,798	-	5,067	-	4,409	80,444
REGULAR RATE	35,056	41,362	-	79,572	-	81,261	1,562,265
NONPROFIT	6,589	7,551	-	16,509	-	16,287	328,106
CLASSROOM	301	372	-	664	-	724	12,641
STD A-SINGLE PIECE	5,668	7,410	-	11,520	-	14,461	221,996
REG ENH CAR RTE	39,547	41,857	-	115,658	-	106,577	1,895,002
REG STD OTHER	133,996	171,225	-	307,565	-	358,107	5,361,407
NP ENH CAR RTE	2,894	3,430	-	7,588	-	7,794	128,031
NP STD OTHER	27,010	35,894	-	64,955	-	75,459	1,121,210
STD B-PARCELS ZONE	17,231	21,443	-	24,936	-	37,023	738,899
BND PRINTED MATTER	8,494	10,328	-	15,789	-	20,794	329,071
SPECIAL RATE	7,511	9,615	-	11,441	-	17,217	254,938
LIBRARY RATE	1,369	1,787	-	2,130	-	3,177	48,594
USPS PENALTY	4,767	5,793	-	10,005	-	10,682	173,308
FREE FOR BLIND	910	1,168	-	1,642	-	2,146	31,521
INTERNATIONAL MAIL	13,074	22,215	-	27,032	-	33,066	1,195,102
SS-REGISTRY	8,740	7,978	-	3,750	-	11,286	75,948
CERTIFIED	9,981	8,876	-	20,435	-	18,483	326,161
INSURANCE	1,000	868	-	1,783	-	14,269	41,209
COD	569	515	-	915	-	2,848	16,760
SPECIAL DEL	1	1	-	-	-	2	30
MONEY ORDERS	5,561	9,068	-	8,880	-	8,376	145,901
STAMPED ENVEL	72	10,440	-	113	-	107	12,188
SPECIAL HNDLG	63	61	-	76	-	96	1,274
POS OFFICE BOX	148,840	124,105	-	20,852	-	115,724	589,955
OTHER	5,675	6,622	-	9,351	-	12,021	155,142
TTL VOLUME VAR.	950,341	1,529,268	-	1,834,863	-	2,302,509	34,429,362
OTHER	590,346	2,002,121	57,201	2,760,839	38,972	1,796,340	26,260,883
TOTAL COSTS	#####	3,531,389	57,201	4,595,702	38,972	4,098,849	60,690,257

Source: OCA file FY98FIN.XLS and OCA-LR-7, file FY98LP.LR.

COMPARISON OF OCA AND USPS TEST YEAR DATA
PRIOR TO FINAL ADJUSTMENTS AND CONTINGENCY

	OCA	USPS	OCA H/(L)
1-LETTERS&PARCELS	12,492,475	12,492,466	9
PRESORT LTR & PAR	4,017,038	4,017,041	(3)
SINGLE PC CARDS	432,610	432,590	20
PRESORT PRI CARDS	158,456	158,467	(11)
PRIORITY	2,067,600	2,067,595	5
EXPRESS	413,561	413,570	(9)
MAILGRAM	519	502	17
PERIODICAL-IN CNTY	80,444	80,424	20
REGULAR RATE	1,562,265	1,562,202	63
NONPROFIT	328,106	328,112	(6)
CLASSROOM	12,641	12,627	14
STD A-SINGLE PIECE	221,996	221,986	10
REG ENH CAR RTE	1,895,002	1,894,972	30
REG STD OTHER	5,361,407	5,361,440	(33)
NP ENH CAR RTE	128,031	128,015	16
NP STD OTHER	1,121,210	1,121,232	(22)
STD B-PARCELS ZONE	738,899	738,878	21
BND PRINTED MATTER	329,071	329,083	(12)
SPECIAL RATE	254,938	254,953	(15)
LIBRARY RATE	48,594	48,595	(1)
USPS PENALTY	173,308	173,330	(22)
FREE FOR BLIND	31,521	31,451	70
INTERNATIONAL MAIL	1,195,102	1,195,076	26
SS-REGISTRY	75,948	75,985	(37)
CERTIFIED	326,161	326,161	-
INSURANCE	41,209	41,205	4
COD	16,760	16,797	(37)
SPECIAL DEL	30	28	2
MONEY ORDERS	145,901	145,902	(1)
STAMPED ENVEL	12,188	12,186	2
SPECIAL HNDLG	1,274	1,270	4
POS OFFICE BOX	589,955	589,953	2
OTHER	155,142	155,139	3
TTL VOLUME VAR.	34,429,362	34,429,233	129
OTHER	26,260,883	26,260,888	(5)
TOTAL COSTS	60,690,245	60,690,121	124

Source: OCA file FY98LP.LR and USPS-T-15, WP G, Table D.

1 CHAIRMAN GLEIMAN: Do you have the corrected
2 copies for the reporter, please?

3 THE WITNESS: Yes, I do.

4 CHAIRMAN GLEIMAN: Thank you, Mr. Richardson.

5 Ms. Thompson, have you had an opportunity to
6 examine the packet of designated written cross-examination
7 as made available earlier today?

8 THE WITNESS: Yes, I have.

9 CHAIRMAN GLEIMAN: And if these questions were
10 asked of you today, would your answers be the same as those
11 you previously provided in writing?

12 THE WITNESS: I have three corrections to my
13 interrogatory responses and they have been included in the
14 packet that you have.

15 The first correction is to the second page of my
16 response to USPS-OCA-T-100-5(a). The correction refers to
17 component 2179. Delete the first sentence that says, "Not
18 used in the base year." Replace the sentence with "In
19 BY-96, LP.LR component 2179 contains component 2101
20 volumes."

21 The second correction is to USPS/OCA-T-100-8. The
22 last line references OCA-LR-6 at 17. Please change the
23 reference to OCA-LR-4 at 17. The correction on the last
24 line should read, "needed to be edited as described in
25 OCA-LR-4 at 17."

1 The third and final correction is to
2 USPS/OCA-T-100-33(b). The response after the semicolon
3 currently reads, "therefore I did not use the control string
4 18." Please delete the word "therefore" and the word "not".
5 The correction should read, "I did use the control string
6 18."

7 CHAIRMAN GLEIMAN: Those corrections have been
8 incorporated into the package we have. That being the case
9 I'm going to provide two copies of the corrected designated
10 written cross-examination of Witness Thompson to the
11 reporter and direct that they be accepted into evidence and
12 transcribe into the record at this point.

13 [Designation of Written
14 Cross-Examination of Pamela A.
15 Thompson, OCA-T-100, was received
16 into evidence and transcribed into
17 the record.]

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 1997

Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF OFFICE OF THE CONSUMER ADVOCATE
WITNESS PAMELA A. THOMPSON
(OCA-T100)

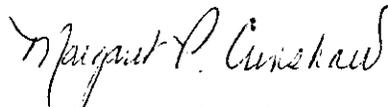
Party

United States Postal Service

Interrogatories

USPS/OCA-T100-1-12, 14-19, 21-41, 43-47, 49-52

Respectfully submitted,



Margaret P. Crenshaw
Secretary

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-1-10

10526

USPS/OCA-T100-1. Please refer to OCA-LR-6, footnote 1 on page 3 and the third line on page 24. Do the terms "my results" on page 3 and "I put" on page 24 refer to you?

A. Yes.

USPS/OCA-T100-2. Please specify all the computer software and hardware requirements used in programming, executing and producing OCA's version of the Commission's cost model. The description should include names, version numbers and any modifications of software or hardware.

A. In Docket No. MC96-3, the Commission filed a copy of its cost model in PRC-LR-5. The OCA's cost model is a copy of the Commission's Docket No. MC96-3 cost model. In this docket, two modifications to the Commission's cost model were made. One modification is discussed in OCA's library reference OCA-LR-4 at 5-6. The second modification involves a change to the program PRMAT.C. The Commission's cost model mislabeled segment 6 data as segment 5 data. To correct the labels, the following code in PRMAT.C was changed from "segp = (kt < 5) ? kt+1 : kt+2;" to "segp = (kt < 4) ? kt + 1 : kt +2;". Changing the "5" to "4" corrected the segment label. The updated cost model programs were recompiled using a DOS version of Borland's 2.01 Turbo C. No other modifications were made to the code.

I do not know what minimum system requirements are needed to operate the files provided in OCA's library reference OCA-LR-4, 6 and 7. The office computer I use has the following hardware configuration: Pentium 166 processor, 80 megs of RAM, 2.0 gigabyte hard drive, 3.5 floppy drive, CD ROM drive (speed unknown, but not used during this docket) and an external ZIP drive.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-1-10

10528

USPS/OCA-T100-3. Please refer to the description of updating the COMP.TXT file on pages 7-12, Section III.A of OCA-LR-4.

(a) Please confirm that the referenced PRCCOMP.XLS file is from Docket No. MC96-3, PRC-LR-5, Part 1, on pages 1-12 of the section entitled "Component Titles".

(b) Please confirm that on page 3 of Docket No. MC96-3 PRC-LR-5, Part 1, the following information is shown:

Cost Segment	Title	PRC Component Number	USPS Component Number
9	Special Delivery Messengers-Salaries - Office	901	58

(c) Please confirm that on page 11 of Docket No. MC96-3 PRC-LR-5, Part I, the following information is shown:

Cost Segment	Title	PRC Component Number	USPS Component Number
21	Reserved for Special Delivery Salaries Key	2159	58

(d) Please confirm that on page 3 of Docket No. R97-1 OCA-LR-6, the following information is shown:

Cost Segment	Title	PRC Component Number	USPS Component Number
9	Special Delivery Messengers-Salaries - Office	901	58

(e) Please confirm that on page 11 of Docket No. R97-1, OCA-LR-6, the following information is shown:

Cost Segment	Title	PRC Component Number	USPS Component Number
21		2159	61

(f) Please refer to the comment on page 9 of OCA-LR-4: "[a]n additional source of Postal Service component numbers is USPS library reference H-4 at 221-250". Confirm that on page 228 of USPS LR-H-4, component 58 is defined as "Special Delivery Messengers, Salaries, Office" and component 61 is defined as "Special Delivery Messengers, Total Salaries."

(g) In light of the explanation on pages 8-9 of OCA-LR-4 that USPS component 58 is associated with both Commission components 901 and 2159, please explain your understanding of USPS components 58 and 61, and of Commission components 901 and 2159. Include in your explanation your definition of each of the components, and the volume variable and accrued dollar amounts for each component as shown in the Manual Input Requirement for both the Postal Service's and the OCA's cost models.

A. (a) The file I am referring to in Section III of OCA-LR-4, pages 7-12, is the Excel file, PRCCOMP.XLS. A copy of PRCCOMP.XLS is provided on the diskette accompanying the Docket No. MC96-3 library reference PRC-LR-5.

(b) Confirmed.

(c) Confirmed.

(d) I assume you are referring to Docket No. R97-1, OCA-LR-6, tab OCACOMP.XLS, page 3 of 12. If so, then confirmed.

(e) I assume you are referring to Docket No. R97-1, OCA-LR-6, tab OCACOMP.XLS, page 11 of 12. If so, then confirmed.

(f) Not confirmed. "Special Delivery Messengers, Salaries, Office" does not appear in USPS library reference H-4 at 228. "Special Delivery Messengers, Salaries

Office”, component 58, appears in USPS library reference H-4 at 223. “Special Delivery Messengers, Total Salaries”, component 61, appears in USPS library reference H-4 at 223.

(g) In Docket No. MC96-3, Postal Service component 58 was associated with PRC components 901 and 2159. OCA-LR-4 at 8-9 provides an example of what a duplicate entry in COMP.TXT would look like given the information used in Docket No. MC96-3. The example I provided appears to have caused some confusion.

Segment 21 is used in the Commission's cost model to store distribution keys and Postal Service volumes. The PRC's cost model is limited to a maximum of 99 components for each segment. In segment 21, the component numbers range from 2101 to 2199. Due to the component numbering limitation, numbers in segment 21 could vary from one docket to another. I tried to maintain the PRC's numbering scheme as much as possible, however, I did make some changes. One change I made, in Docket No. R97-1, was to PRC component 2159. This change is noted on OCA's Updated Cost Roll-Forward Model Component Titles and Numbers list – OCA-LR-6, tab OCACOMP.XLS at 11. The diskette accompanying OCA-LR-4 contains the file, COMP97.TXT. OCA-LR-4 at 8-12 discusses the COMP.TXT file. When I wrote pages 8-12, I provided a generic file name, COMP.TXT. When I provided copies of the files I used, I renamed the physical file COMP.TXT to COMP97.TXT. The renaming was done to help me distinguish COMP.TXT files from one docket to another. In Docket No.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-1-10

10531

R97-1, COMP97.TXT shows that PRC component 2159 is associated with Postal Service component 61.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-1-10

10532

USPS/OCA-T100-4. Please refer to pages 10-12 of OCA-LR-6. There are numerous PRC Component Numbers for which the associated USPS Component Number contains the phrase "see also." These PRC components are: 2110, 2115- 2126, 2144, 2146-2147, 2151 and 2170-2173.

(a) For each of these PRC components, please explain to what documentation the "see also" refers. For example, are both USPS Component Numbers 364 and 96 associated with PRC Component Number 2144, and where is this documented?

(b) Please provide the correct USPS Component Number and cite the USPS documentation that provides the source of the information. For example, is USPS-LR-4 the source of the component numbers and definitions?

(c) If USPS-LR-4 is the source, please provide the page numbers on which the information can be found.

(d) Please provide any revised pages to OCA-LR-6 that may result.

A. (a) - (d) Pages 10-12 of OCA-LR-6 do not contain the phrase "see also". If you are referring to OCA-LR-6, tab OCACOMP.XLS, pages 10-12, please see the revisions to OCA-LR-6 filed on January 13, 1997. I believe these corrections (which consist of an accurate printout of pages 10 and 11) should clear up any misunderstanding about the citation of Postal Service component numbers.

USPS/OCA-T100-5. Please refer to pages 10-12 of OCA-LR-6. There are numerous PRC Component Numbers for which there is no associated USPS Component Number.

(a) Please provide the associated USPS Component Numbers and cite the documentation from which this information is taken.

(b) If there are any USPS Component Numbers that are not available for PRC Component Numbers, please explain why they are not required to execute the Commission's cost model.

A. (a) Cost Segment 21:

<u>PRC Component No.</u>	<u>USPS Component No.</u>
2153	Defined in PESSA96P.FAC as "xs,2153,4,901,902,903,904". PRC component 2153 is the sum ("xs") of PRC components 901, 902, 903 and 904.
2163	547. See OCA-LR-4, filename COMP97.
2169	Defined in PESSA96P.FAC as "xs, 2169,3, 601,602,604".
2174	Not used in the Base Year. Used in FY 97 to distribute costs to STD B Parcels – USPS component 1418. See USPS-T-15, Appendix A at 9. See also OCA-LR-6 at 20-21 and USPS-T-5, Workpaper A at 131-132.
2175	Not used in the Base Year. The component is used in FY 97 and is defined in PESSA97P.FAC as "xs,2175,3,2154,-2304,-2309".
2176	Not used in the Base Year. The component is used in FY 97 and is defined in PESSA97P.FAC as "xs,2176,6,2155,-2301,-2302,-2303,-2304,-2309".
2177	For the Base Year, component 2177 is defined in PESSA96P.FAC as "xs,2177, 21,601,602,603,604,701,702,703, 704,705,706,707,708,709,710,711,712,713,901,902,1001, 1002". In replicating FY 97 data, 2177 is reused as the International Mail distribution key – USPS component 1419. See

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-1-10

10534

- USPS-T-15, Appendix A at 9. See also OCA-LR-6 at 20-21 and USPS-T-5, Workpaper A at 131-132.
- 2178 The command creating the data is found in HLSDIST.FAC. The instructions are
"xs,2178,67,201,202,221,222,204,205,206,207,208,
209,211,212,216,217,218, 210,305,705,711,703,709,
1207,223,224,225,301,302,304,310,309,312,313,
314,315,316,317,308,306,401,601,604,602,
701,702,704,706,707,708,710,712, 713,801,901,
902,1001,1002,1102,1206,1209,1210,1201,1202,1203,1204,1205,
1208,1211".
- 2179 In BY96LP.LR, component 2179 contains component 2101 volumes. In FY 97, component 2179 contains Postal Service FY 97 volumes. See OCA-LR-6, tab FY97LP.LR, PRC component 2102. In FY 98, component 2179 contains Postal Service FY 98 volumes. See OCA-LR-7, tab FY98LP.LR, PRC component 2104.
- 2180 907. See OCA-LR-4, filename COMP97.
- 2181 914. See OCA-LR-4, filename COMP97.
- 2182 915. See OCA-LR-4, filename COMP97.
- 2183 917. See OCA-LR-4, filename COMP97.
- 2184 918. See OCA-LR-4, filename COMP97.
- 2185 919. See OCA-LR-4, filename COMP97.
- 2186 921. See OCA-LR-4, filename COMP97.
- 2187 923. See OCA-LR-4, filename COMP97.
- 2188 931. See OCA-LR-4, filename COMP97.
- 2189 924. See OCA-LR-4, filename COMP97.
- 2190 971. See OCA-LR-4, filename COMP97.
- 2191 913. See OCA-LR-4, filename COMP97.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-1-10

10535

2199 None identified

(b) I do not know if USPS component numbers exist for all PRC components.

That question is outside the scope of my testimony.

USPS/OCA-T100-6. Please refer to page 9 of OCA-LR-4 and the sentence that reads "[t]he Postal Service's Base Year data file, B.DAT, (USPS library reference H-6, subdirectory \Ps420d01\Fy96mods) reflects the Postal Service's MIR with adjustments and indirect cost distributions". Also, refer to the response of Witness Patelnas, USPS-T5 to OCA interrogatory OCA/USPS-T5-5a that states "[t]he I.DAT data file provided on CD ROM in Postal Service Library Reference H-6, subdirectory "ps410d01/fy96mods" is the same file as USPS-T-5, Workpaper A-1, Manual Input Requirement."

(a) Please provide a complete explanation as to why you decided to use the B.DAT file rather than the I.DAT file for your version of the Postal Service's Manual Input Requirement.

(b) If the I.DAT file had been used, would you have needed the SAS conversion provided in OCA-LR-3?

A. (a) - (b) The first decision I faced when I began the process of replicating the Postal Service's cost data with the updated version of the Commission's cost model was what Postal Service data file to use. I was aware of both the B.DAT and I.DAT files to which your interrogatory refers. However, I did not know what the difference was between the two files. The SAS conversion file provided in OCA-LR-3 was used on both files. Both files appeared to require editing in order to replicate the Manual Input Requirement found in USPS-T-5, Workpaper A. I chose to use the B.DAT file from USPS library reference H-6, subdirectory Ps420d01/FY96mods. Due to the magnitude of the task required to document and replicate the Postal Service's cost data and the time constraint I was operating under, I made the decision to use the Postal Service's B.DAT file prior to receiving the Postal Service's response to OCA/USPS-T5-5a.

USPS/OCA-T100-7. Please refer to the description on pages 11-14 of OCA-LR-4 of how PRCCOMP.XLS updates the Postal Service's B.DAT file to reflect the Postal Service's Manual Input Requirement.

(a) In Subpart b, it states that when a Postal Service component is deleted, "the Commission's component number in the PRCCOMP.XLS listing is retained for future use." Then, an example is given in which the Postal Service's component 6001 is deleted and the Commission's component 213 is retained for future use. Please confirm that when the Commission's component 213 is reused, it may be associated with any USPS component. If confirmed, please explain how the Commission's model avoids confusing the old USPS component number (6001) and the new USPS component number (other than 6001). If not confirmed, please explain the correct interpretation of the comment "retained for future use."

(b) Referring to Subpart c, please confirm that if component XX00, in segment XX, is moved to segment YY, it is renamed in the Commission's model to component number YY00. If confirmed, please describe in detail all of the modifications that would need to be made to the Commission's model to incorporate this change. If not confirmed, what would the renamed component number be and what modifications would need to be made to the Commission's model to incorporate this change?

(c) In the description provided in Subpart d, there is a discussion of Commission component 301 and USPS components 35 and 546. It states "[w]hen the COMP.TXT file is built, the information in the file matches the Commission's component 301 with the Postal Service's component 546 so that the data in BASEYEAR.BIN segment 3 component 301 (3:1) corresponds to the Postal Service's MIR. USPS-T-5, Workpaper A-1 at 15-16.1." Referring to pages 15-16.1 of USPS-T-5, Workpaper A-1, it lists both components 35 and 546. Please explain your understanding of the USPS components 35 and 546 and cite the documentation that provides this information. Include in your explanation whether or not USPS components 35 and 546 are identical in the I.DAT and B.DAT files provided in USPS-LR-6.

(d) Please refer to footnote 6 on page 14 which states "[t]he third row contains 5 data numbers followed by the component identifier." Then an example is given for component 2192 and the explanation is "[t]he third row contains 4 "0"s followed by the component identifier." Which is the correct description of the, components being converted in BASEYEAR. DAT?

A. (a) Confirmed. I do not know what steps the Commission would take to avoid potential confusion. However, documentation would be one possibility.

(b) Your example appears correct, however, I would like to clarify my understanding of your interrogatory. The Commission's cost model works within a

segment/component numbering scheme that is XX01 to XX99. There is no XX00. In your example, if component XX00 is moved to segment YY then the new component number for XX00 would only be YY00 if there was not a pre-existing component numbered YY00. I have not encountered a situation of this type, so I cannot say what further steps would be required. However, my general understanding of the necessary considerations involved to incorporate a change would depend on what component is moved, what pre-existing relationships existed, and whether it is necessary to maintain such pre-existing relationships.

(c) The extraction of information for Commission component 301 was performed by a former OCA staff member, who now works for the Postal Service. Prior to his departure, he wrote a SAS program, PREPROC.SAS, that extracted specific data from the Postal Service's data files. PREPROC.SAS is provided in this docket as OCA-LR-3. The data file extract his SAS program produced contained Postal Service data in a format compatible with the Commission's cost model. PRC component 301 was set to pull data from Postal Service component 546. I personally verified that PRC component 301 matched USPS component "35 & 546" in USPS-T-5, Workpaper A at 15-16.1. Therefore, I was satisfied that the data extraction had been performed correctly. I am unable to answer whether USPS components 35 and 546 are identical in the I.DAT and B.DAT files provided in USPS-LR-6. I do not know how to locate USPS component 35 in the Postal Service's I.DAT and B.DAT file.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-1-10

10539

(d) OCA-LR-6, page 14, footnote 6 should refer to component "2199" not "2192".

Please see the revisions to OCA-LR-6, filed January 13, 1998.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-1-10

10540

USPS/OCA-T100-8. Please refer to OCA-LR-4, page 15, Part IV that states "[p]rior to executing any of the four cost model programs, XREAD, COSTMOD, LRCOST, and PRMAT, the test files TITLES and ROWCOL.H are reviewed and updated as required." Was this review and update of the test files performed during the process of producing OCA-LR-4? If the response is affirmative, please provide a step-by-step description of how the review and update was accomplished, including a list of the time involved with each step. If the response is anything other than affirmative, please explain why it was not necessary to perform this review and update of the test files.

A. Please note that you incorrectly quoted me. I did not use the term "test files;" the library reference says "text files". OCA-LR-4 was written after I replicated the Postal Service's Base Year cost data. In this docket, I visually compared the contents of the TITLES file used to replicate the Base Year data with the headers appearing in USPS-T-5, Workpaper A, Manual Input Requirement. Another source for the Postal Service's headers is USPS library reference H-4, member name AHEAD at 45-46. Changes to the text file TITLES were typed into the file using Windows 95 Notepad.

For FY 97, I visually compared the contents of TITLES with USPS-T-15, WP A. Changes to the text file TITLES were typed into the file using Windows 95 Notepad. For FY 98, I visually compared the contents of TITLES with USPS-T-15, WP F. I did not need to make changes in the text file TITLES for FY 98. I did not keep a record of the time I spent comparing Postal Service headers with those appearing in the text file TITLES.

After updating TITLES to accommodate the Postal Service's elimination of the distinction between Postal Cards and Private Postcards, I knew that ROWCOL.H needed to be edited as described in OCA-LR-4 at 17. I did not keep a record of the

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-1-10

10541

time I spent typing in the change to ROWCOL.H.

USPS/OCA-T100-9. Please refer to pages 19-20 of OCA-LR-4.

(a) The first full paragraph on page 19 states "If the total number of components in the first 23 segments of the Commission's cost model program changes, then the change must be reflected in the appropriate number in the line "ins sc[24]=(3,...44)." Did the "total number of components" change so as to require an update to the program to produce OCA-LR-4? If the response is affirmative, please describe the edit process and provide an estimate of the time required. If the response is anything other than affirmative, please provide an estimate of the time required to make the determination that no change was required.

(b) The second full paragraph states "[g]enerally, segment 21 is used to store the results of calculations that become distribution keys; segment 22 acts as temporary working storage; segment 23 stores PESSA cost totals; and segment 24 stores the sum of segments 1 through 20? If these segments are "generally" used as described, please provide a complete list of any exceptions to the rule and provide a complete explanation of why each exception was necessary.

(c) The last line on page 18 and continuing onto page 19 states "In both segments 21 and 22, the maximum number of components available is 99 and which is currently an internal program memory limitation." Has this "memory limitation" caused any programming or execution problems with the Commission's model? If the response is affirmative, please explain in detail how the problems were solved and provide an estimate of how much time was expended solving these problems. If the response is anything other than affirmative, was the statement made solely to indicate the possibility of a problem?

(d) Referring to the discussion in part c, has there been any study to determine whether or not the "memory limitation" will cause any programming or execution problems in the future? If the response is affirmative, please provide all analyses, documentation and an estimate of the amount of time spent studying this issue. If the response is anything other than affirmative, please provide an explanation of why this issue has not been considered.

A. (a) The cite provided in the interrogatory is incorrect. I believe the sentence you are referring to is the third sentence of the first full paragraph on page 18. As stated in OCA-LR-4 at 20, no changes were required. I ran the cost model and verified that the data replicated USPS-T-5, Workpaper A, Manual Input Requirement. Therefore, I knew no further changes were required to ROWCOL.H. If the Postal Service had added additional components, I would have had to find where the Postal Service had added

components and adjust ROWCOL.H accordingly. I have not encountered this problem, therefore, I have no basis upon which to base an estimate.

(b) The term "generally" was used because segment 21 not only stores results of calculations, it also stores Postal Service volumes. Segment 24 stores the sum of segments 1 through 20 and the column titled "TOT:23" is the sum of segment 22. Segment 24 also includes volumes and the column "Cost/Pc." I am not aware of any other exceptions.

(c) I experienced a memory limitation with the updated version of the Commission's cost model. To solve the limitation, I isolated each year's data in a separate subdirectory. Please refer to the introduction in OCA-LR-6, second paragraph. I did not keep a record of the time spent solving this problem.

(d) I did not perform any analysis as this was outside the scope of my testimony.

USPS/OCA-T100-10. Please refer to the list of components on page 24 of OCA-LR-4 that require manual editing.

(a) Please confirm that the differences range from \$50(000) for Commission component 1807 to \$520,441 (000) for Commission component 1810.

(b) For each of these components, please explain in detail the reason(s) for the differences.

(c) Was an analysis performed at the time OCA-LR-4 was being produced to understand the causes of these differences. If the response is affirmative, please provide copies and documentation of all tests performed, all hypothesis tested and an estimate of the amount of time expended for each of the stages of the analysis. If the response is anything other than affirmative, please explain in detail the reasons why it was decided that these differences were not of such significance so as to warrant further study.

(d) Please list any other differences between BASEYEAR.DAT and the USPS Manual Input Requirement found at this stage, whether due to rounding or any other reason, and explain how these differences were resolved. Please provide documentation for the analysis completed, the results and an estimate of the time expended on this effort.

A. (a) Confirmed.

(b) & (c) A former OCA staff member prepared the Postal Service data file extract I used. See my response to USPS/OCA-T100-7(c). I do not know why the differences exist. I do not know what analyses he may have performed. I did attempt to find an explanation for some differences I found. Please see the response of USPS witness Patelunas to OCA/USPS-T5-3. Analyzing the differences was outside the scope of my testimony. I accepted the Postal Services numbers as provided in USPS-T-5, Workpaper A, Manual Input Requirement and edited the OCA's data file to agree with the Postal Service's Manual Input data. I did not keep a record of the time spent, therefore I cannot provide an estimate.

(d) I do not know of any other differences. I did not keep a record of the time spent, therefore I cannot provide an estimate.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-11-23

USPS/OCA-T100-11. Please refer to OCA-LR-4; the narrative on pages 25 and 26 of OCA-LR-4 discusses the PESSA cost factors, including the citation, to USPS-T-5, Workpaper A-1 at 138-140.1.

(a) Please confirm that on both pages 25 and 26, component number 572 is defined as the Postal Service's "total rental value" factor.

(b) Please confirm that on pages 137-138.1 of USPS-T-5, Workpaper A-I, component number 562 is defined as the Postal Service's "Total Rental Value".

(c) Is 572 or 562 the correct component number to refer to in OCA-LR-4?

(d) Refer to the following sentences: "As a means of verifying the Postal Service's distribution keys, the Commission's model builds its own distribution keys. Therefore, each Postal Service component (555, 572, 1297, 1298, and 1299) is input into the model as a percent of total. The Postal Service's data for components 555, 572, 1297, 1298, and 1299 is input into the EXCEL spreadsheet DISTKEY.XLS...".

1. In the list of Postal Service components discussed in the second and third sentences, should component 572 be component 562? If not, please explain fully.

2. Please explain fully how inputting the Postal Service's factors as percents verifies the Postal Service's distribution keys. Please show all calculations and comparisons used in the verification process.

A. (a) Confirmed.

(b) Confirmed.

(c) The correct Postal Service component number is 562.

(d) 1. Please see my response to part "(c)" of this interrogatory.

2. The Commission's cost model requires that total square feet, total rental values, parts and supplies, maintenance labor and capital be input as a percent of total. My documentation explains the steps I took to update the Commission's cost model and files to replicate Postal Service data. Further analysis of the Postal Service's distribution keys was outside the scope of my testimony.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-11-23

USPS/OCA-T100-12. Please refer to OCA-LR-4, page 31, Section C, which states in part: "[w]hen COSTMOD.EXE runs, the segment 3 differential pay costs are input into the Commission's cost component 301. Prior to running COSTMOD.EXE, component 301 is equivalent to the Postal Service's component 546. After COSTMOD.EXE runs, the costs in component 301 are adjusted to reflect the Postal Service's component 35 costs."

(a) Please confirm that executing COSTMOD.EXE serves as the vehicle by which differential pay costs are input into the Commission's cost component 301. If you do not confirm, please explain fully.

(b) Please confirm that after executing COSTMOD.EXE, there are additional steps by which the costs in component 301 are adjusted to reflect the Postal Service's component 35 costs. If you do not confirm, please explain fully.

(c) Please confirm that following these adjustments, the Commission's cost component 301 is identical to the Postal Service's component 35 and additionally, the equivalent of the Postal Service's component 546 ceases to be used. If you do not confirm, please explain fully.

(d) To your knowledge, does the Postal Service's cost model use components 35 and 546 differently? If so, please explain how they are used differently and provide documentation. If not, is component 546 unnecessary in the Postal Service's cost model?

(e) In the third paragraph, the following statement appears: "'Di' calculates the incremental cost column *col/seg'*. Please define the use of the term "incremental cost column. Is this analogous to the incremental cost discussion in the testimony of Witness Takis, USPS-T-41?

A. (a) Confirmed.

(b)-(d) Please see my response to USPS/OCA-T100-7(c). USPS-T-5, Workpaper A at 15-16.1 identifies segment 3 mail processing costs as USPS component "35 & 546". After executing the statement "COSTMOD BASEYEAR.BIN BY96CP.FAC 2101 2101 BY96ACP.BIN < SCRIPT" and reviewing a printout of BY96ACP.BIN (see OCA-LR-4, tab BY96ACP.BIN), PRC component 301 (3:1) is equivalent to the Postal Service "Adjusted Mail Processing" (component 35) as shown

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-11-23

at USPS-T-5, Workpaper A-2 at 3. All subsequent program references in the updated version of the Commission's cost model would refer to the most current amount appearing in component 301.

COSTMOD.EXE appears to be the "vehicle by which differential pay costs are input into the Commission's cost component 301." Understanding how COSTMOD.EXE uses the information it receives from other files and how the Postal Service's cost model uses components 35 and 546 was not necessary for purposes of my testimony.

(e) As cited on page 32 of OCA-LR-4, that explanation of the subroutine "di" comes from PRC Op. R84-1, Appendix E at 10. I am not familiar with the testimony of Witness Takis.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-11-23

USPS/OCA-T100-14. Please refer to OCA-LR-4, page 36, where it states: "[I]n the future, if a problem with distribution calculations occurs, start comparing the Commission's components in segment 22 with the Postal Service's Base Year data." In Docket No. MC96-3, PRC-LR-5, Part I and in Docket No. R97-1, OCA-LR-6, the only explanation provided for segment 22 is "Working Storage". How would a comparison of Commission components with Postal Service components proceed? Please provide a list of steps that would accomplish this comparison.

A. The results of the calculations performed in segment 22 can be viewed by limiting the number of statements the program is given to execute at any one time. After the program executes the instructions it is given, the results in segment 22 can be compared with Postal Service data. When the cost model results replicate Postal Service data, additional statements may be added to the updated Commission's cost model and the program run again. The procedure of limiting the number of commands executed by the updated version of the Commission's cost model at any given time and verifying program results may be repeated as often as necessary.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-11-23

USPS/OCA-T100-15. Please refer to OCA-LR-4, page 36. Footnotes 14-17 cite USPS-T-5, Workpaper A-3 at 0.3 as the source of the amounts used to calculate OCA's Cost Model Inputs for components 143, 156, 157 and 164.

(a) Please confirm that USPS-T-5, Workpaper A-3 at 0.3 is the Postal Service's Base Year 1996 Factor Report.

(b) Please confirm that the calculations resulting in the Factor Report and the production of the Factor Report occur after the Postal Service's Manual Input Report is complete.

(c) Please confirm that the calculations resulting in the Factor Report and the production of the Factor Report occur after the Postal Service's A Report is complete.

(d) Please explain in detail how the OCA's cost model replicates the Postal Service's Peak Load Mail Processing Adjustments without relying on the output of the Postal Service's Factor Report. Please provide all workpapers and calculations.

(e) Please explain how the OCA's adjustments to its Cost Model Inputs verifies Postal Service data as indicated by title 2 on page 35: "A Comparison of the OCA's Peak Load Mail Processing Adjustments In BY96ACP.BIN Verifies Postal Service Data".

(f) Was any analysis done or OCA model executions performed using the OCA Calculated Results rather than the OCA Cost Model Inputs? If the response is affirmative, please provide copies and documentation of all analysis and executions performed and an estimate of the amount of time expended for the analysis. If the response is anything other than affirmative, please explain in detail the reasons why it was decided that the differences were not of such significance to warrant further testing.

A. (a) Confirmed.

(b) - (c) I am unaware of the order in which the Postal Service's reports are prepared.

(d) - (f) The purpose of my testimony was to update the Commission's cost model and replicate the Postal Service's Base Year, FY 97 and FY 98 results. I began by accepting the Postal Service's Manual Input Requirement data. I updated the files with information provided by the Postal Service including information from Postal

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-11-23

Service components 555, 562, 1297,1298. See OCA-LR-4 at 25-35. A comparison of the results I obtained using an updated version of the Commission's cost model showed that the model successfully replicated Postal Service data. Further verification of Postal Service data was not necessary for purposes of my testimony.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-11-23

USPS/OCA-T100-16. Please refer to OCA-LR-4 and the following statement that appears on page 41: "[e]ach OCA file is a copy of a file used by the Commission in Docket No. MC96-3, PRC-LR-5." Refer also to the end of section 2 on page 42 that describes the process of editing the Commission's program to eliminate errors, resulting in the edited file "OCARIP1.DAT"

(a) Please describe in detail all of the errors and problems that arose while attempting to update the Commission's MC96-3 ripple file.

(b) Please provide all analyses performed to understand the errors and formulate solutions to the error messages. Please provide copies and documentation of all programming analysis, all tests performed, all edits, all hypotheses tested and an estimate of the amount of time expended for each of the stages of the analysis.

A. (a) OCA-LR-4 at 42 describes in general terms the type of error message I got.

I did not keep a message log nor did I keep a problem log.

(b) I did not keep a record of the time I spent understanding and resolving errors or problems encountered.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-11-23

USPS/OCA-T100-17. Please refer to OCA-LR-4, pages 41-42. The following statement appears on page 41: "[f]or purposes of this documentation, the OCA's "ripple" files are OCARIP1.DAT, OCARIP2.DAT and OCARIP3.DAT". The following statement appears on page 42: "[s]ee library reference H-6 and H-4 for the commands appropriate to the ripple files in this docket". For each line of code in the files: OCARIP1.DAT, OCARIP2.DAT and OCARIP3.DAT:

(a) Please provide a complete explanation of each command in English. For example, please explain the expression "4,201,216,219,302,1,301" in English.

(b) Please provide the complete citation from USPS library references H-6 and H-4 for each line of code appearing in OCARIP1.DAT, OCARIP2.DAT and OCARIP3.DAT. For example, provide the complete source, including page number, for the commands appropriate for "4,201,216,219,302,1,301".

A. (a) For purposes of my testimony, it was not necessary to understand how the updated Commission cost model used the information provided in OCARIP1.DAT, OCARIP2.DAT and OCARIP3.DAT. As described in OCA-LR-4 at 41-42, 47-48 and 49-51, I made copies of the Commission's Docket No. MC96-3, PRC-LR-5 ripple files and edited out those lines where the component following the second integer contained zeros. For illustrative purposes, the information provided in "4,201,216,219,302,1,301" indicates that "4" PRC components "201, 216, 219 and 302" are impacted by "1" (the second integer) component – PRC component 301. If PRC component 301 had a value of zero, then the line "4,201,216,219,302,1,301" would have generated an error message. To eliminate the error message, I subsequently deleted the line from the file. Please note that PRC component 301 does not have a value of zero.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-11-23

(b) The reference to USPS library reference H-4 and H-6 in OCA-LR-4 at 42 appears to have caused confusion. When I updated OCARIP1.DAT, OCARIP2.DAT and OCARIP3.DAT, I did not use USPS library references H-4 or H-6. I deleted lines as described in OCA-LR-4. However for FY 97, I used both USPS library references H-4 and H-6 to prepare the "ripple" instructions needed to replicate Postal Service data. See OCA-LR-6 at 10-12.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-11-23

USPS/OCA-T100-18. Please refer to the following paragraph from page 44 of OCA-LR-4: "In the Commission's cost model, components 2201 to 2299 are used as temporary working storage. Therefore, each of the Commission's cost model printouts is compared with the Postal Service's data prior to executing another program command. At present, the data in components 2201 (22:1) to 2221 (22:21) successfully replicate USPS-T-5, Workpaper A-3, Factor Report at 76-84."

(a) Please explain fully what the term "prior to executing another program command" means. For instance is the program halted at this point to verify the "temporary working storage" components 2201 to 2299?

(b) Does the term "each of the Commission's cost model printouts" mean every specific page of the Commission's model is compared to the Postal Service's model. If the response is anything other than affirmative, please provide a complete list of all of the "Commission's cost model printouts" that are compared.

(c) The terms "temporary working storage" and "[a]t present" indicate the transient nature of components 2201 to 2299. Did the initial comparison of components 2201 to 2221 show a successful replication of USPS-T-5, Workpaper A-3, Factor Report at 76-84? If the response is anything other than affirmative, please provide copies of all the printouts from the initial run to the final run that actually replicated the Postal Service's results.

(d) Please provide an estimate of the amount of time expended for each of the stages of comparing and editing the Commission's files to replicate the Postal Service's results.

A. (a) No. Please see my response to USPS/OCA-T100-14.

(b) When I executed the Commission's updated cost model, I visually compared each printout I generated with Postal Service workpapers.

(c) No. Due to the volume of paper generated in one run of the cost model, and given the potential for confusion over which printout was the most current, I kept only the most current printouts. Copies of the printouts I retained are provided in OCA-LR-4, -6 and -7.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-11-23

(d) I did not keep a record of the time I spent comparing results and editing the
OCA's file.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-11-23

USPS/OCA-T100-19. Please refer to OCA-LR-4, pages 45 and 46.

(a) Please refer to the statement: "sum "7" components (301,302, 303, 601,602, 603, and 604) and store the results in component 2170. The seven components represent administrative clerk's quality control and data collection costs." Please confirm that the sum of these components is more than the total costs for clerk's quality control and data collection costs. If you do not confirm, please explain fully.

(b) Please refer to the second line of code listed for SEG3SR.FAC: "xs,2171,3,301,302,303" and the first sentence on page 46: "[t]he line "xs,2171,4,301,302,303,306" instructs the computer to sum 4 components (301, 302, 303 and 306) and store the results in component 2171.

1. What is the correct line of code for SEG3SR. FAC?

2. Was either of the different lines of code the result of an earlier version of the OCA cost model? If the response is affirmative, please provide copies of all versions developed to arrive at the final version. If the response is anything other than affirmative, please provide an explanation for this apparent discrepancy.

A. (a) Confirmed. The seven components represent mail processing (PRC components 301, 302 and 303) and city delivery carriers (PRC components 601, 602, 603 and 604).

(b) 1. The correct line of instructions should be: "xs,2171,4,301,302,303,306."

2. No. Upon review, I am unable to justify the omission of component 306.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-11-23

USPS/OCA-T100-21. Please refer to the statement "some of the highlighted components contain zeros and cause program error messages" on page 49 of OCA-LR-4.

(a) Please provide a complete list of all "the highlighted components" that contain zeros and cause program error messages.

(b) Please provide a complete list of all non-highlighted components that contain zeros and cause program error messages.

(c) Please a complete explanation of why these components listed in response to (a) and (b) above caused program error messages.

A. (a) The PRC components that cause an error message because their values are zero are 702 and 703.

(b) I am unaware of other components that have a zero value and cause program error messages.

(c) OCA-LR-4 at 50, has the highlighted instruction "1,708,1,702". The instruction indicates that "1" PRC component 708 is impacted by "1" PRC component 702. PRC component 702 has a value of zero. The instruction "1,709,1,703" indicates that 1 PRC component 709 is impacted by "1" PRC component 703. PRC component 703 also has a value of zero. The instruction "6,206,1203,1214,1225,1311,1319,2,702,703" indicates that "6" PRC components 206, 1203, 1214, 1225, 1311, 1319 are impacted by "2" PRC components 702 and 703. I do not have an in-depth understanding of how the cost model interprets each instruction it is given; that knowledge is not necessary for purposes of my testimony.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-11-23

USPS/OCA-T100-22. Please refer to footnote 18 on page 50 of OCA-LR-4.

(a) Please fully explain why this particular line of code "generates an error message if the batch file "startup.bat" is used to run the Commission's cost model initially", while apparently the other lines of code do not.

(b) Please fully explain what is different in the Commission's model between the first program run and subsequent program runs that allow "STARTUP.BAT" to be used for the subsequent runs.

(c) Was an analysis performed to understand this particular error message? If the response is affirmative, please provide all analyses performed to understand what specifically caused this error message and formulate solutions to the error message. Please provide copies and documentation of all programming analysis, all tests performed, all edits, all hypotheses tested and an estimate of the amount of time expended for each of the stages of the analysis. If the response is anything other than affirmative, please provide the rationale for deciding that this error message was not worthy of investigation.

A. (a) I do not know why this line of code generated an error message. However, the first time through the cost model programs PRC component 2245 could cause an error message because it has a value of zero.

(b) I do not know specifically why the first pass through the cost model must be manually performed while subsequent passes can be accomplished through a batch file.

(c) No. Further analysis was not necessary for purposes of my testimony.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-11-23

USPS/OCA-T100-23. Please refer to pages 51-54 of OCA-LR-4.

(a) Please confirm that the development of the 59.301% proportion of higher level supervisor variable costs occurs outside of the OCA cost model. If this is not confirmed, please provide a detailed explanation of how it is accomplished and show where it is accomplished in the model.

(b) Please explain in detail why "[t]he Postal Service's cost methodology changes require the addition of variability statements at the end of HLSDIST.FAC to reset program variabilities to 1 to eliminate previous variability settings." In your explanation, please address which particular variabilities are being cited and how this modification of the Commission's MC96-3 cost model was implemented.

(c) Please explain in detail how "[r]esetting variabilities in HLSDIST.FAC prepares the Commission's programs for the roll forward process." In your explanation, please address why these changes were required to replicate the Postal Service's roll forward results and how this roll forward implementation differs from the base year implementation described in part b.

(d) Please provide copies and documentation of all programming analyses, all tests performed, all edits, all hypotheses tested and an estimate of the amount of time expended to implement these changes in the base year and the roll forward years.

A. (a) Confirmed.

(b) -(c) Please note that the quote from OCA-LR-4 is at 54-55. The OCA data file BY96LP.BIN is the file used to roll forward the Base Year costs to FY 97. The HLSDIST.FAC file is the last opportunity the program operator has to reset the variabilities back to 100 percent prior to generating the file BY96LP.BIN. The variabilities being reset to "1" are shown in the HLSDIST.FAC file provided on the diskette accompanying OCA-LR-4. A copy of the "va" statements as they appear in that file follows. For clarity, the PRC component numbers whose variabilities are being reset have been highlighted.

va,1,2110,1.0
va,1,2116,1.0

/* Reset Variability (RV) - Com Fwd Sys
/* RV - Mail Proc BCS

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-11-23

va,1,2117,1.0	/* RV - DBCS
va,1,2151,1.0	/* RV - CSBCS
va,1,2118,1.0	/* RV - LSM
va,1,2119,1.0	/* RV - FSM
va,1,2120,1.0	/* RV - Par Sort & NMO Mach
va,1,2121,1.0	/* RV - Facer/Cancel Ltrs
va,1,2122,1.0	/* RV - Facer/Cancel Flts
va,1,2123,1.0	/* RV - Culling
va,1,2124,1.0	/* RV - Sack Sort Machine
va,1,2125,1.0	/* RV - Sm Par & Bundle Sort
va,1,2126,1.0	/* RV - Remote BCS
va,1,2128,1.0	/* RV - ACDCS
va,1,2115,1.0	/* RV - OCR
va,1,2145,1.0	/* RV - Strapping
va,1,2144,1.0	/* RV - Powered Trans Eq
va,1,2146,1.0	/* RV - Gen/Log BMC
va,1,2147,1.0	/* RV - Gen/Log Non-BMC

The modification to the Commission's cost model is explained in OCA-LR-4 at 5.

Prior to resetting the variabilites listed above to 1 (or 100 percent) , the variabilites from the printout of BY96BRP.BIN (OCA-LR-4 at tab BY96BRP.BIN) for each of the highlighted PRC components are as follows:

<u>PRC Component No.</u>	<u>Percent Variable</u>
2110	91
2116	94.5
2117	94.5
2151	94.5
2118	90.5
2119	91.8
2120	90
2121	65.4
2122	65.4
2123	65.4
2124	99.0

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-11-23

<u>PRC Component No.</u>	<u>Percent Variable</u>
2125	59.2
2126	100.3
2128	82.9
2115	78.6
2145	74.5
2144	74.5
2146	63.3
2147	76.9

(d) I did not keep a log of the time spent implementing these changes.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-24-25

USPS/OCA-T100-24. Please refer to OCA-LR-4, pages 56-64 which contain the code listing for PESSA96P.FAC. The highlighted lines are the "changes made in the Commission's template to produce the OCA's R97-1 PESSA file."

(a) Please confirm that there are 335 total lines of code listed. If this is not confirmed, please provide the correct total.

(b) Please confirm that there are 162 lines of code that were changed. If this is not confirmed, please provide the number of lines that were changed.

(c) Assuming that parts a and b are confirmed, please confirm that 48% of the lines were changed.

(d) Please provide all analyses performed to arrive at the decision to change these particular lines. Please provide copies and documentation of all programming analyses, all tests performed, all edits, all hypotheses tested and an estimate of the amount of time expended for each of the stages of the analysis.

A. (a) Confirmed.

(b) Confirmed.

(c) Confirmed.

(d) I ran the updated version of the Commission's cost model with copies of the Commission's Docket No. MC96-3 files. When the results did not replicate the Postal Service's data, I began comparing the information provided in USPS-T-5, Workpaper A with the information contained in the OCA factor files. I converted Postal Service components into PRC component numbers and edited the instructions in my "factor" files until the instructions replicated the information provided by the Postal Service in USPS-T-5, Workpaper A. I did not keep copies of intermediate printouts. I did not keep a record of the time spent editing instructions.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-24-25

USPS/OCA-T100-25. Please refer to pages 64-67 of OCA-LR-4.

(a) It is indicated that Postal Service "variabilities are rounded to the nearest tenth of a percent", so OCA performed the following calculations. "[E]quipment and capital factor variabilities" are "manually calculated from Postal Service information. USPS-T-5, Workpaper A-3 at 19-26.1", and "square footage and rental variabilities" are "calculated from information provided in USPS-T-5, Workpaper A-3 at 3-16.1".

1. Did you examine the variabilities that were actually used in the Postal Service's model, for example, whether or not the Postal Service variabilities are rounded to tenths, hundreds, thousands, etc.? If the response is affirmative, please provide complete citations to the Postal Service documents that contain this information. If the response is anything other than affirmative, please provide all reasons why such an examination was not undertaken.

2. Please provide all the analyses performed to decide which variabilities would be used in the OCA model. Please provide copies and documentation of all programming analysis, all tests performed, all edits, all hypotheses tested and an estimate of the amount of time expended for each of the stages of the analyses.

(b) Please refer to the statements found on page 65: "[t]wo statements "nk,2174,902,3,7,24,29" and "la,2328,2153,159,2174,v" highlighted above are deleted from PESSA96P.FAC. The statements are not needed in this docket." Please provide a complete explanation of why these statements are not needed in this docket. In your explanation, please address what has changed in the Postal Service model to allow the statements to be deleted and provide complete citations to the Postal Service documents containing this information.

(c) Please refer to the following statements on page 65: "[t]he statement "xs,2177,21,601 ,...,604,701,....,713, 901,902,1001,1002" and "fm,176,2177,1" build the factor identified as 176. Factor 176 is subsequently used as a distribution key for the statement "la,2242,2199,43,2141,b,176. See USPS-T-5, Workpaper A-3 at 15-16.1."

1. Please confirm that not one of the components listed in: "601 ,...,604,701,....,713, 901,902,1001,1002" appears on pages 15-16.1 of USPS-T-5, Workpaper A-3.

2. If the response to part 1 is confirmed, please fully explain how the citation

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-24-25

to USPS-T-5, Workpaper A-3 adds to the understanding of the OCA's program coding for those lines.

3. Regardless of whether the response to part 1 is confirmed, if possible, please provide the citation to the pages in Postal Service documents containing the information that would be helpful in understanding OCA's programming code on these lines.

(d) Refer to the statement on page 66: "Due to internal program memory limitations, some PESSA96P.FAC statements refer to segment 22 components previously used....BY96LP.LR printout of segment 22 shows the results of the last calculations performed and stored in each component (see tab BY96LP.LR)."

1. Has this "memory limitation" caused any programming or execution problems with the Commission's model? If the response is affirmative, please explain in detail how the problems were solved and provide an estimate of how much time was expended solving these problems. If the response is anything other than affirmative, was the statement made solely to indicate the possibility of a problem?

2. Has there been any study to determine whether or not the "memory limitation" will cause any programming or execution problems in the future? If the response is affirmative, please provide all analyses, documentation and an estimate of the amount of time spent studying this issue. If the response is anything other than affirmative, please provide an explanation of why the decision was made that this issue need not be addressed.

3. Please confirm that the results of all program executions prior to the final one are lost and cannot be viewed in BY96LP.LR or elsewhere in OCA-LR-4.

(e) Please confirm that, in the first sentence of the second full paragraph on page 67, the reference should be to "component 1820" rather than "segment 1820:"

(f) Please refer to the statement on page 67 that: "the Commission's single-subclass stop costing methodology is not incorporated. Therefore, component 705 has a value of zero. Running the Commission's cost model program with the "la,2279,2006,170,705,a" statement generates a program error message."

1. Were there any other error messages that were generated at this stage of

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-24-25

processing the OCA's cost model? If the response is affirmative, please provide a list of all error messages generated.

2. Did the presence of component 705 cause any error messages to be generated anywhere else in the OCA's cost model, whether in the base year or the rollforward years? If the response is affirmative, please provide a list of all error messages resulting from the presence of component 705, and provide citations to where they occurred in the program. If the response is anything other than affirmative, please provide an explanation of why there were no other errors, for example, in the case of piggybacks.

3. Was any analysis performed at the time OCA-LR-4 was being produced to study if there were any other cause(s) of these error(s) besides, or in addition to, component 705? If the response is affirmative, please provide copies and documentation of all tests performed, all hypotheses tested and an estimate of the amount of time expended for each of the stages of the analysis. If the response is anything other than affirmative, please explain in detail the reasons why it was decided that component 705 was the cause of all the error messages.

4. Was any analysis performed to understand how much time would be devoted to incorporating the Commission's single-subclass stop costing methodology into the OCA's model after this methodology was removed to replicate the Postal Service's results? If the response is affirmative, please provide an estimate of that amount of time.

A. (a) 1. & 2. I initially used the percentages provided in USPS-T-5, Workpaper A-3 at 19-26.1, in the section labeled "Column Source". Examining the number of significant digits maintained by the Postal Service in its model was not necessary for purposes of my testimony and would have been too time consuming given the time constraints I was operating under.

(b) When I initially ran the updated version of the Commission's cost model, the two lines of code referenced in the interrogatory appeared in the file. When I was

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-24-25

writing OCA-LR-4, I did not know what function the "nk" statement performed.

Therefore, I removed the "nk" and "la" statements to see what impact they had on the updated cost model. No impact was noted; therefore, I deleted the two lines from the file. I did not determine what, if any, changes occurred in the Postal Service's model.

(c) 1. - 3. At page 60 of OCA-LR-4, the statement "xs,2177,21,601,....,1002" and "fm,176,2177,1" is followed by the statement "la,2242,219,43,2141,b,176". The factor 176 is used in the "la,2242,..." statement by the cost model program to replicate the information provided in USPS-T-5, Workpaper A-3 at 15-16.1, Postal Service component 942, "Accountables Cage."

(d) 1. & 2. Please see the response to USPS/OCA-T100-9(c) and (d). By isolating each year's data in separate subdirectories, I was able to reuse a few segment 21 cost components for FY 97. The components reused are noted in the OCA-LR-6 documentation.

3. Not confirmed. The results of the calculations performed in segment 22 can be viewed by limiting the number of statements the program is given to execute at any one time. After results have been verified, more statements can be added. The process may be repeated as often as required. Not all segment 22 results may be viewed at one point in time.

(e) Confirmed.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-24-25

(f) 1. & 2. I did not keep a log of error messages, therefore I am unable to answer what other error messages may or may not have been generated.

3. No. If I removed a statement and the program ran successfully, I assumed the component with a zero value generated the error message.

4. No.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-26-39

USPS/OCA-T100-26. Please refer to OCA-LR-4, the first paragraph on page 68, and OCA-LR-6, page 12 of 12, of OCA's Updated Cost Roll-forward Model Component Titles and Numbers.

(a) Please confirm that the component numbers noted in the paragraph on page 68 of OCA-LR-4 refer to the identical component titles and numbers listed on page 12 of OCA-LR-6. If you do not confirm, please provide the titles associated with the component numbers listed on page 68 of OCA-LR-4.

(b) Please confirm that the Cost Segment 23 component list on page '12 of OCA-LR-6 includes "Seg. 2 Employee & Labor Relations 2301" and "Seg. 9 Special Delivery Fixed Attributable 2328", and these two components are not included in the list of components 2302 to 2327 of BY96LP.LR. If you do confirm, please fully explain why these two components are not included in BY96LP.LR. If you do not confirm, please explain how they are included in BY96LP.LR.

A. (a) Confirmed.

(b) Confirmed. The "Cost Segment" 23 component list you are referring to does include components 2301 and 2328. OCA-LR-4 at 68 does not include components 2301 and 2328 because they have a zero value. Segment 23 in OCA-LR-4 at tab BY96LP.LR does list component 2301 and 2328. For each component within segment 23 that does not have a zero value, 23:02 to 23:27, the PRC component number has been cited to the applicable Postal Service workpaper, page and component number.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-26-39

USPS/OCA-T100-27. Please refer to the following statement on pages 68-69 of OCA-LR-4: "[e]ach column imported into this worksheet is moved within the worksheet - columns are placed in increasing cost component sequence (23:01 - 23:30)...[o]nce the EXCEL import is complete and components 23:01 through 23:30 are in increasing order, components 23:31 to 23:44 are deleted."

(a) Please confirm that the component numbers 23:01 - 23:28 correspond to the component numbers and titles listed for Cost Segment 23 on page 12 of OCA-LR-6. If you do not confirm, please provide a list of the component titles associated with the component numbers shown in the EXCEL spreadsheet.

(b) Please provide the component titles associated with component numbers 23:29 and 23:30 shown on the EXCEL spreadsheet.

(c) Please provide a list of the procedures that were accomplished to arrive at the process described on pages 68-9 of OCA-LR-4 to enable the production of the OCA's equivalent of the Postal Service's C Report. Please provide an estimate of the time required to perform each step in the procedure.

A. (a) Please note that your cite is incomplete. If you are referring to the component numbers and titles in OCA-LR-6, tab OCACOMP.XLS at 12, then confirmed.

(b) In the Base Year and in FY 97, component numbers 23:29 and 23:30 are not used. In FY 98, component 23:29 is used to store "Other Interest" and component number 23:30 is used to store "Imputed Special Assessments." See USPS-T-15, Workpaper G, B Report at 32.

(c) The procedures I followed are described in OCA-LR-4 at 68-69. To summarize them, they are: (1) Use the PRMAT.C program to create a LPRTMP file containing segment 23 and 24 data, (2) Import the LPRTMP file using EXCEL's Import Wizard Function, (3) Move columns of data in increasing numeric sequence, (4)

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-26-39

Delete extraneous columns, and (5) Group columns of data as required to replicate Postal Service Reports. I did not keep a log of the time I spent performing this task.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-26-39

USPS/OCA-T100-28. Please refer to OCA-LR-6, footnote 2 on page 4. Please explain fully why DIST97.XLS "tries to re-establish links" when it loads. Do you know of any way to prevent this problem? If the response is affirmative, please provide a copy of the spreadsheet that loads without this problem. If the response is anything other than affirmative, has any effort been devoted to attempting to resolve this problem?

A. I do not know why DIST97.XLS tries to re-establish links when it loads. I did try to resolve this EXCEL linking problem but was unsuccessful.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-26-39

USPS/OCA-T100-29. Please refer to OCA-LR-6, pages 7-8. On page 7, the following statement appears: "[v]olumes in component 2101 are revised to include the FY 96 non-RPW volumes for stamped envelopes, special handling and P.O. Boxes." On page 8, the following statement appears: "[t]he rollforward process starts by using the last Base Year data file ending with a "BIN" extension. In this docket, the last base year file is "BY96LP.BIN"."

(a) Please confirm that USPS Exhibit-15A (revised 8/18/97) shows the following Base Year 1996 volumes: stamped envelopes of 536.861, special handling of 68.175 and P.O. Boxes of 17211.937.

(b) Please confirm that BY96LP.BIN shows the following Base Year 1996 volumes: stamped envelopes of 0, special handling of 0 and P.O. Boxes of 0.

(c) Please provide the Base Year 1996 volumes used for the procedure described in this sentence from page 7 of OCA-LR-6: "[a]fter all volumes are updated, XREAD is re-run by typing "XREAD BASEYEAR.DAT."

A. (a) Confirmed.

(b) Confirmed.

(c) The volumes used in the roll forward files are provided on the diskette

accompanying OCA-LR-6 and are located in the file BASEYEAR.DAT. The Base Year

volumes used in the FY 97 BASEYEAR.DAT file for component 2101 are:

1-LETTERS & PARCELS	54,150,759
PRESORT LET & PAR	39,057,193
SINGLE PC CARDS	3,052,105
PRESORT PRI CDS	1,956,017
PRIORITY	937,273
EXPRESS	57,573
MAILGRAM	4,204
PERIODICAL -IN COUNTY	877,829
REGULAR RATE	6,984,301
NONPROFIT	2,205,180
CLASSROOM	58,885
STD A-SINGLE PIECE	145,807
REG ENH CAR RTE	29,180,737
REG STD OTHER	30,150,508

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-26-39

NP ENH CAR RTE	2,908,617
NP STD OTHER	9,300,466
STD B- PARCELS ZONE	212,828
BND PRNTD MATTER	516,111
SPECIAL RATE	189,793
LIBRARY RATE	30,133
USPS PENALTY	360,114
FREE FOR BLIND	49,969
INTERNATIONAL MAIL	1,053,071
SS-REGISTRY	18,623
CERTIFIED	270,832
INSURANCE	28,724
COD	4,866
SPECIAL DEL	382
MONEY ORDERS	214,029
STAMPED ENVLPS	536,861
SPECIAL HNDLG	68,175
POS OFFICE BOX	17,211,937
OTHER	0
TOTAL VOLUME	201,793,902

Please note that commas and data labels have been inserted for readability.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-26-39

USPS/OCA-T100-30. Please refer to OCA-LR-6, pages 8-10, where the cost level effect in the rollforward model is described.

(a) Please confirm that the only changes to the Docket No. MC96-3, PRC-LR-5 file TYAR96P.FAC are for the percent change in the cost level. Another way of stating this is to confirm that there were no additions to, or deletions from, the components receiving a cost level effect.

(b) Please confirm that all of the components receiving a cost level effect in the Postal Service filename VBL1 receive a comparable cost level effect in the OCA model.

A. (a) As stated in OCA-LR-6 at 8-10, I replaced the cost level factors from FY96CP.FAC with commands similar to those used in TYAR96P.FAC. A comparison of TYAR96P.FAC shows that there were no additions to, or deletions from the section titled "cost level factors."

(b) As noted in OCA-LR-6 at 8, I used the factors provided in USPS Exhibit-15A at 1. If, after updating the cost level factors with USPS witness Patelunas' information, I had noticed problems with data replication, I would then have referred to USPS library references H-4 and H-6. I did not keep a log of problems so I do not know if I encountered any problems with USPS witness Patelunas' data. I have no reason to believe that components receiving a cost level effect in the Postal Service's filename VBL1 differ from those in the OCA model.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-26-39

USPS/OCA-T100-31. Please refer to OCA-LR-6, page 10, where the following comments appear: "[d]uring the roll forward process, COSTMOD uses the "ripple" file RIPDAT1 to produce the following cost effects: mail volume, non-volume workload and additional workday. In this docket, the USPS instructions used in the OCA's RIPDAT1.DAT file come from the USPS library reference H-4 at 531-538, "MEMBER NAME VBL2", "op code" 21 and 18."

(a) Please confirm that on pages 531-538 of USPS library reference H-4, MEMBER NAME VBL2 defines procedures to be executed for only the mail volume effect in the Postal Service's cost model. If you do not confirm, please explain fully.

(b) Please provide your definition of "op code" as you use it in the above quote, and provide the citation to the USPS documentation that provides this information.

(c) Please explain your understanding of the function of "op code 21 and 18" and how the Postal Service's model accomplishes that function.

A. (a) It is my general understanding that the COSTMOD program uses ripple files to assist it in replicating Postal Service mail volume, non-volume workload and additional workday cost effects. I am unable to confirm whether or not VBL2 only contains procedures needed by the Postal Service's model to execute the mail volume effect. For purposes of my testimony, I did not need to know whether or not the Postal Service's cost model only used "VBL2" to define mail volume effect procedures in its cost model. As stated in my testimony, "The purpose of my testimony and library references ... is to explain the procedures I followed to update the Commission's version of the Postal Service cost model. OCA-T-100 at 3.

(b) & (c) My understanding of the "op code 21 and 18" comes from Docket No. R97-1, USPS library reference H-5, section 1 at 9. For purposes of my testimony, I did not need an in-depth understanding of the Postal Service's cost model operation. As previously stated, "The purpose of my testimony and library references ... is to explain

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-26-39

the procedures I followed to update the Commission's version of the Postal Service cost model." OCA-T-100 at 3.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-26-39

USPS/OCA-T100-32. Please refer to the following statement on page 12 of OCA-LR-6: "[t]he first row of numbers "3,201,216,302,1,301" indicates that 3 components 201,216 and 302 are affected by 1 component -1. Similar logic applies to the remaining 19 rows."

(a) Please fully explain which of the cost effects described on page 10 -- mail volume, non-volume or additional workday - are calculated by the line of code "3,201,216,302,1,301".

(b) Please fully explain which of the cost effects are calculated by the remaining 19 rows of code.

A. (a) & (b) Please note that you have incorrectly quoted me. The correct quote is as follows: "[t]he first row of numbers "3,201,216,302,1,301" indicates that 3 components 201, 216 and 302 are affected by 1 component – 301. Similar logic applies to the remaining 19 rows." Please see my response to USPS/OCA-T100-31(a). The purpose of my testimony was not to provide extra documentation on the Commission's cost model. As previously stated, "The purpose of my testimony and library references ... [wa]s to explain the procedures I followed to update the Commission's version of the Postal Service cost model." OCA-T-100 at 3. The Postal Service has already expressed its satisfaction with the Commission's cost model documentation. Tr. 19C/9150. Understanding how the Commission's cost model code operates and how a specific line of code in a RIPDAT1.DAT file is used by the program was not necessary for purposes of my testimony.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-26-39

USPS/OCA-T100-33. Please refer to the following from page 12 of OCA-LR-6: "[I]n USPS library reference H-6, \PSMANDO3\FY97RCC\STAT\VBL5 (hereafter, FY97RCC-VBL5) indicates that the volume mix and workyear mix adjustments use a different ripple file. The four Postal Service "op code" 21s in FY97RCC-VBL5 are replicated in the OCA's VOLRIP1 .DAT file. The VOLRIP1 .DAT file is used to incorporate the Postal Service's adjustments."

(a) Please confirm that FY97RCC-VBL5 defines the Postal Service cost model procedures that implement the cost reduction effects of the Volume Mix Adjustment developed in USPS library reference H-126. If you do not confirm, please explain fully.

(b) Please confirm that FY97RCC-VBL5 (see USPS-LR-H--4, pages 579-581) includes control string 18. Please explain fully why the OCA model includes only the four Postal Service "op code 21s" and excludes control string 18.

(c) Please confirm that FY97RCC-VBL5 does not define the Postal Service cost model procedures that implement the cost reduction effects of the Workyear Mix Adjustment calculated in USPS library reference H-12. If you do not confirm, please explain fully.

(d) Please provide complete citations to the Postal Service documentation where the Workyear Mix Adjustment procedures are defined.

(e) Please fully explain how the Postal Service's Workyear Mix Adjustment is incorporated in the OCA model.

A. (a) For purposes of my testimony, I did not rely on USPS library reference H-126; therefore, I am unable to confirm.

(b) Confirmed. Using "op code 21s" in VBL5 allowed me to successfully replicate Postal Service data; I did use the "control string 18."

(c) For purposes of my testimony, I did not rely on USPS library reference H-12; therefore, I am unable to confirm.

(d) & (e) Apparently there is some confusion over my documentation. USPS library reference H-6, Section IV, Part B, Member Name "VBL5" at 604 contains a set of instructions. I converted the Postal Service component numbers into components used

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-26-39

by the PRC. Then I used the file I created to incorporate into the updated version of the Commission's cost model the Postal Service's Workyear Mix Adjustment. Since the OCA's cost model does not roll forward the Workyear Mix Adjustment, the instructions were input into the cost model in a separate cost model run.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-26-39

USPS/OCA-T100-34. Please refer to pages 10-16 of OCA-LR-6.

(a) Please confirm that the following statement appears on page 10 of OCA-LR-6: "[d]uring the rollforward process, COSTMOD uses the "ripple" file RIPDAT1 to produce the following cost effects: mail volume, non-volume and additional workday."

(b) Please confirm that the following statement appears on page 14 of OCA-LR-6: "[a] copy of the FY97CP.FAC mail volume effect instructions follow".

(c) Please confirm that the following statement appears on page 15 of OCA-LR-6: "[a] copy of the updated non-volume workload instructions appearing in FY97CP.FAC follows".

(d) Please confirm the following statement appears on page 16 of OCA-LR-6: "[a] copy of OCA's updated additional workday instructions appearing in FY97CP.FAC follows".

(e) Please confirm that RIPDAT1.DAT and FY97CP.FAC are two distinct files and that they are used separately in the OCA's cost model. If you do not confirm, please explain fully.

- A. (a) Confirmed.
(b) Confirmed.
(c) Confirmed.
(d) Confirmed.
(e) Confirmed.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-26-39

USPS/OCA-T100-35. Please refer to the following from page 14 of OCA-LR-6: [s]ee USPS-LR-4 at 523-533. The instructions given to COSTMOD do not change total component costs; the intent is to redistribute existing costs." If the total component costs do not change, please explain fully how the existing costs are redistributed. Was the intention successfully accomplished?

A. The following sentence should be deleted from the paragraph: "The instructions given to COSTMOD do not change total component costs; the intent is to redistribute existing costs."

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-26-39

USPS/OCA-T100-36. Please refer to these statements from OCA-LR-6 on page 15: "A description of the components impacted by the Postal Service's non-volume workload is provided in USPS library reference H-4, VBL3 at 539-543. The final three "nv" statements highlighted above, "nv, 1,215,0", "nv, 1,221,0" and "nv,1,225,0" are added to zero out the cost effect that occur in components 215, 221 and 225, thereby allowing the Commission's cost model to replicate the Postal Service data."

(a) Please confirm that the following Postal Service components are associated with the OCA components you discuss: 215 = 30, 221 = 674 and 225 = 678. If you do not confirm, please provide the Postal Service components associated with the OCA components you discuss.

(b) Please confirm that on pages 539-543 of USPS library reference H-4, VBL3 does not show any nonvolume workload effect for components 30, 674 or 678.

(c) Please explain fully what "cost effects that occur in components 215, 221 and 225" are zeroed out and why this needs to be done "to replicate the Postal Service data."

A. (a) Confirmed.

(b) I am unable to confirm, because I did not translate each line of Postal Service library reference H-4, VBL3. However, I have no reason to believe there was a nonvolume workload effect for Postal Service components 30, 674 or 678.

(c) I first attempted to replicate the Postal Service's nonvolume workload data using all the commands listed in OCA-LR-6 at 15, except for the following three: "nv,1,215,0", "nv,1,221,0" and "nv,1,225,0." In verifying my printout with the Postal Service's data, I determined that my data could more closely replicate that of the Postal Service.

It is my understanding that the Commission's cost model ripple files can impact the "nonvolume workload" section of the factor file FY97CP.FAC. Therefore, after several attempts, I found that adding the final three "nv" lines allowed the updated

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-26-39

version of the Commission's cost model to more accurately replicate Postal Service data. I am unaware of what cost effects occur in components 215, 221 and 225.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-26-39

USPS/OCA-T100-37. Please refer to pages 12-23 of OCA-LR-6 which describe the following steps:

1. executing the rollforward commands
2. verify cost level factors
3. building the cost model mail volume effect commands
4. verify mail volume changes
5. building the cost model nonvolume workload commands
6. verify nonvolume workload changes
7. building the cost model additional workday commands
8. verify additional workday changes
9. building the cost reduction commands
10. allocating the segment 2 cost reduction
11. allocating the segment 3 cost reduction
12. allocating the segment 6 cost reduction
13. verify cost reduction changes
14. building the other programs commands
15. verifying FY96LR.BIN

Please provide a complete list of all difficulties encountered while working through each of these steps and an estimate of the amount of time devoted to each step.

A. I did not keep a list of the difficulties I encountered while I worked through each of the steps listed, nor did I keep a log of the time I devoted to each step.

**ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-26-39**

USPS/OCA-T100-38. Please refer to the following statements from page 24 of OCA-LR-6: "[w]hen I put Postal Service component 587 data in the Commission's component 2026, I got an error message regarding file size. Therefore, I put the Postal Service's other program amount of -88,017, for component 587 (Commission component 2026) in the Commission's component 2025. There is no adverse impact of putting -88,017 in component 2025 versus 2026."

(a) Please provide a complete explanation of why an error message regarding file size resulted from putting Postal Service component 587 data in the Commission's component 2026.

(b) Please provide a complete explanation of how the solution of putting the data in component 2025 was arrived at. Include in your explanation a complete list of other solutions that were attempted.

(c) Please confirm that page 10 of 12 of OCA-LR-6 shows the following information:

Cost Segment	Title	PRC Component Number	USPS Component Number
20	Other Accrued Expenses - Interest Expense - Annuitant COLNHB Int.	2025	896
20	Imputed Int. Veh. Ld. & Bldg. Equip.	2026	587

If you do not confirm, please provide the correct information.

(d) Please confirm that the file by961p.bin shows the Base Year 1996 costs that are rolled-forward to FY 1997 in the OCA cost model. If you do not confirm, please provide the name of the correct file.

(e) Please confirm that in OCA-LR-4, page 24 of file by961p.bin shows component 2025 with 0 base year 1996 total costs and component 2026 is not listed. If you do not confirm, please provide the correct information and the source of that information.

(f) Please confirm that the file fy97vbr.bin shows the FY 1997 costs that are rolled-forward to Test Year 1998 in the OCA cost model. If you do not confirm, please provide the name of the correct file.

(g) Please confirm that in OCA-LR-6, page 24 of file fy97vbr. bin shows component 2025 with -88,017 FY 1997 total costs and component 2026 is not listed. If you do not confirm, please provide the correct information and the source of that information.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-26-39

(h) Please confirm that the file shown in Patelunas workpaper WP-A, Part 2 of 2 shows the Base Year 1996 costs that are rolled-forward to FY 1997 in the Postal Service cost model.

(i) Please confirm that Patelunas workpaper, WP-A, Part 2 of 2 shows component 587 with 368,039 base year 1996 total costs (page 854) and component 896 with 0 base year 1996 total costs (page 860).

(j) Please confirm that the file shown in Patelunas workpaper WP-B, shows the FY 1997 costs that are rolled-forward to Test Year 1998 in the Postal Service cost model.

(k) Please confirm that Patelunas workpaper, WP-B shows component 587 with 280,022 FY 1997 total costs (page 320) and component 896 with 0 FY 1997 total costs (page 324).

A. (a) When I was running the cost model, I was not sure why that error message occurred. I thought segment 20 had been allocated sufficient internal program memory, yet, I was aware that component 20:26 was not being printed. However, due to time constraints, I did not have time to analyze the problem further.

(b) When I encountered the problem discussed in part "a" of this interrogatory, I realized that component 2025 had a value of zero. I had two options, use component 2025 or see if a change to ROWCOL.H worked. When I evaluated changing ROWCOL.H, I felt that I would need to regenerate all previous printouts, re-verify the data and update my documentation. Using component 2025 appeared to be the more expedient alternative.

(c) If you are referring to OCA-LR-6, tab OCACOMP.XLS at 10, then confirmed.

(d) Confirmed.

(e) Confirmed.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-26-39

(f) Confirmed.

(g) Confirmed.

(h) Confirmed.

(i) Confirmed.

(j) Confirmed.

(k) Confirmed.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-26-39

USPS/OCA-T100-39. Please refer to the volume mix adjustments listed on page 26 of OCA-LR-6 and the control strings listed in MEMBER VBL5 on pages 578-581 of USPS-LR-H.4.

(a) Please confirm that the only source of the volume mix adjustment amounts used in the OCA cost model is USPS-T-15, WP-B on pages 3-4. If you do not confirm, please cite all other sources where this information is available.

(b) Please confirm that each of the volume mix adjustment amounts is entered individually into the OCA cost model. If you do not confirm, please explain fully.

(c) Please confirm that the only volume mix adjustment acted upon by the control strings listed in MEMBER VBL5 on pages 578-581 of USPS-LR-H.4 is factor 300 of MEMBER BEN2FACT, which can be found on page 586 of USPS-LR-H.4. If you do not confirm, please provide a complete list of all volume mix adjustments that are acted upon by the control strings listed for MEMBER VBL5.

(d) Please confirm that the amounts shown in USPS-T-15, WP-B on pages 3-4 are the result of the execution of MEMBER VBL5 on the factors shown in MEMBER BEN2FACT. If you do not confirm, please explain the source of the amounts shown in USPS-T-15, WP-B on pages 3-4.

A. (a) Not confirmed. I also referred to USPS-T-15, WP-B at 29-30, 35-36, 41-42, 60-61, 65-66, 71-72, 77-78, 83-84 and 97-98.

(b) Each amount is input using a set of "di/ds" commands.

(c) & (d) For purposes of my testimony, I did not need to understand how the Postal Service's control strings operate.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-40-44

USPS/OCA-T100-40. Please refer to your response to USPS/OCA-T100-2.

(a) Please confirm that in addition to the "C language program," other software was used in the production of the OCA's cost results.

(b) If subpart a. is confirmed, please provide a full description of the additional software (for example, SAS, EXCEL, etc.).

(c) If subpart a. is not confirmed, please explain fully.

A. (a) Confirmed.

(b) The additional software available to the OCA and used is: Windows

Notepad, Microsoft Word for Windows 95 version 7.0, "SAS system for Windows v6.12," and EXCEL for Windows 95 version 7.0.

(c) N/A

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-40-44

USPS/OCA-T100-41. Please refer to your response to USPS/OCA-T100-3g. The response states that "Postal Service component 58 was associated with PRC components 901 and 2159" and then provides a clarification of what a duplicate entry in COMP.TXT would look like given information used in Docket No. MC96-3. The original question states:

"In light of the explanation on pages 8-9 of OCA-LR-4 that the USPS component 58 is associated with both Commission components 901 and 2159, please explain your understanding of USPS components 58 and 61, and of Commission components 901 and 2159. Include in your explanation your definition of each of the components, and the volume variable and accrued dollar amounts for each component as shown in the Manual Input Requirement for both the Postal Service's and the OCA's cost model."

Please provide a complete response to the question originally posed, which specifically defines Commission components 901 and 2159, Postal Service components 58 and 61 and which shows the volume variable and accrued dollar amounts for each of these components as shown in the Manual Input Requirement for both the Postal Service's and the OCA's cost model.

A. The question points out a labeling difference between my library references OCA-LR-4 and OCA-LR-6 on the one hand and Docket No. MC96-3, PRC-LR-5, filename PRCCOMP.XLS. The question is whether PRC component 2159 is associated with Postal Service component 58 as stated in Docket No. MC96-3 or with Postal Service component 61 as shown on page 11 of OCA-LR-6, tab OCACOMP.XLS.

The PRCCOMP.XLS file in Docket No. MC96-3, indicates that Postal Service component 58 is equivalent to PRC components 901 and 2159. The PESSA95P.FAC file in PRC-LR-5 indicates that PRC component 2159 is the special delivery messenger key. In PESSA95P.FAC, the statement "xs,2159,2,901,902 /*2159: Special Delivery Mess. Key" indicates that PRC components 901 and 902 (special delivery messenger

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-40-44

office and street salaries) are summed and the results are stored in PRC component 2159.

In this docket, Postal Service component 58 is associated with PRC component 901. The OCA has associated PRC component 2159 with Postal Service component 61. Postal Service component 61 appears in USPS-T-5, Workpaper A, A Report at 53-54.1. Postal Service component 61, Total Salaries, is the sum of Postal Service special delivery messengers office and street salaries (Postal Service components 58 and 59).

My understanding of Commission components 901 and 2159 and Postal Service components 58 and 61 is limited to the descriptions provided in Docket No. MC96-3, PRC-LR-5, PRCCOMP.XLS and PESSA95P.FAC and Docket No. R97-1, USPS-T-5, WP-A, Manual Input Requirement at 31-32.1 and the A Report at 53-54.1.

The description provided for component 58 by the Postal Service in USPS-T-5, WP-A, Manual Input Requirement at 31-32.1 is "Salaries Office"; the total cost is 18,265. (Trailing zeros omitted.)

The description provided for PRC component 901 by the Commission and used by the OCA is "Special Delivery Messengers- Salaries-Office." OCA-LR-6, tab OCACOMP.XLS at 3. The amount shown for component 901's total cost is 18,265. (Trailing zeros omitted.) See OCA-LR-4, BASEYEAR.BIN at 8.

The description provided for Postal Service component 61 by the Postal Service in USPS -T-5, A Report at 53-54.1 is "Special Delivery Messengers Total Salaries."

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-40-44

Total costs are 105,629. (Trailing zeros omitted.) The Postal Service's Manual Input Requirement does not show component 61 at 31-32.1.

There is no description listed for component 2159 in OCA-LR-6, tab OCACOMP.XLS Revised 1-13-98. I have no reason to believe the description would be any other than Special Delivery Messengers Total Salaries." The amount for OCA's component 2159 is 105,629. (Trailing zeros omitted.) See OCA-LR-4, BASEYEAR.BIN at 30.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-40-44

USPS/OCA-T100-43. Please refer to your response to USPS/OCA-T100-6.

(a) After receiving the Postal Service's response to OCA/USPS-T5-5a, did you determine that you should have used the Postal Service's I.DAT file? If not, please explain fully.

(b) Please confirm that the Postal Service's I.DAT file is identical to the Manual Input Requirement found in USPS-T-5, Workpaper A. If you do not confirm, please explain fully.

A. (a) & (b) No. For purposes of my testimony, neither file replicated the information in USPS-T-5, Workpaper A, Manual Input Requirement accurately. As I stated in my response to OCA/USPS-T100-6, both files required some editing because the data in them did not match the information in USPS-T-5, Workpaper A, Manual Input Requirement. I did not retain a copy of the SAS conversion of the Postal Service's I.DAT file. However, the discrepancies I noted between the I.DAT file and USPS-T-5, Workpaper A, Manual Input Requirement are noted in the interrogatory posed to Postal Service witness Alexandrovich. Please see the redirected response of Postal Service witness Patelunas to OCA/USPS-T5-3.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-40-44

USPS/OCA-T100-44. Please refer to your response to USPS/OCA-T100-7d and the revised page 14 of OCA-LR-4, filed January 13, 1998. Please confirm that the third row of each component in BASEYEAR. DAT contains 4 data numbers followed by the component identifier. If you do not confirm, please explain fully.

A. Confirmed.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-45-52

USPS/OCA-T100-45. Please refer to your response to USPS/OCA-T100-11(d)2. Please confirm that your response means that by replicating the Postal Service's results, you have verified the Postal Service's underlying distribution keys. If you do not confirm, please explain fully.

A. The purpose of my testimony and library references is to explain the procedures I followed to update the Commission's version of the Postal Service's cost model. OCA-T100 at 3. After updating the Commission's cost model, I used Postal Service data to determine that the model successfully replicated USPS-T-5, Workpaper A and USPS-T-15, Workpapers A, B, C, F and G. My testimony does not evaluate the accuracy or the merits of the data presented by the Postal Service. If errors exist in the Postal Service's data, then my results are equally erroneous. Please see my testimony, footnote 2 at 4.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-45-52

USPS/OCA-T100-46. Please refer to your response to USPS/OCA-T100-15b-c. Please confirm that Attachment I to USPS Witness Patelunas's response to USPS/OCA-T5-3 provides the order in which the Postal Service's model execution produces the various files. If you do not confirm, please explain fully.

A. Attachment I of USPS/OCA-T5-3 "is a list of all the directories, subdirectories and file names found in Library Reference H-6." Response of Postal Service witness Patelunas. When I view Library Reference H-6, I am able to see the following directories "PS410D01, PS420D01, PS460D03, PSMAND01, PSMAND03." I am unable to see the following directories: "ALDRAN, LRH-6, and ADAHQN." In the left hand corner of the printout for USPS-T-5, Workpaper A, Manual Input Requirement, the following nomenclature appears: "USPS 10-4730, ALA430P1. The Manual Input Requirement page numbers range from 1 to 145.1. In the left hand corner of the printout for the USPS-T-5, Workpaper A, Factor Report, the following nomenclature appears: "USPS 10-4730, ALA430P1". The Factor Report page numbers range from 0.1 to 90.1 From the information provided on Attachment 1 of USPS witness Patelunas' response to USPS/OCA-T5-3 and the USPS-T-5, Workpaper A report nomenclature and page numbering, I am unable to determine what order the Postal Service's model executes and produces various files.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-45-52

USPS/OCA-T100-47. Please refer to your response to USPS/OCA-T100-15d-f which contains the following statement: "I began by accepting the Postal Service's Manual Input Requirement data." Please confirm that you did not accept any data other than those contained in the Postal Service's Manual Input Requirement that appears as Workpaper A-1 accompanying the testimony of Witness Alexandrovich, USPS-T-5. If you do not confirm, please provide a complete list of all additional Postal Service data you accepted and provide complete documentation to the Postal Service's source of that data.

A. Not confirmed. The program PREPROC.SAS uses the file COMP97.XLS to extract data from a Postal Service data file. Most of the data in the file BASEYEAR.DAT also appears in USPS-T-5, Workpaper A, Manual Input Requirement. However, Postal Service component 61 appears in USPS-T-5, Workpaper A, A Report at 53-54.1. My library references document all the data sources I used in replicating Postal Service results.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-45-52

USPS/OCA-T100-49. Please refer to your response to USPS/OCA-T100-17b. Did you generate every specific page of the Commission's model? If not, please specifically which printouts you generated.

A. Yes, I generated all printouts provided in OCA-LR-4, 6 and 7. Additionally, upon review of my response to USPS/OCA-T100-17b, and re-analyzing OCARIP1.DAT, I realize that I should elaborate on my response to USPS/OCA-T100-17b. USPS/OCA-T100-17b requests that a source be given for each line of code in OCARIP1.DAT, OCARIP2.DAT and OCARIP3.DAT. I indicated in USPS/OCA-T100-17b that I did not use USPS library references H-4 or H-6. However, I did use USPS library reference H-4, but not USPS library reference H-6.

In general, the ripple files from Docket No. MC96-3, RC95RIP1.DAT, RC95RIP2.DAT AND RC95RIP.DAT were copied and served as the template for OCARIP1.DAT, OCARIP2.DAT and OCARIP3.DAT. Lines were deleted as stated in OCA-LR-4. However, if a printout I generated did not match Postal Service data, I referred to USPS library reference H-4, Member Name A at 10-39.

USPS/OCA-T100-17b requested the complete citation from USPS library reference H-4 and H-6 for each line of code. An example was provided. The source of the example "4,201, 216, 219,302,1,301" is Docket No. MC96-3, PRC-LR-5, filename RC95RIP1.DAT. The line of information can also be translated from USPS library reference H-4, Member Name A at 23. The code is as follows:

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-45-52

<u>Postal Service Command</u>	<u>PRC Translation</u>
02	
0004,0035	201,301 = 4,201,216,219,302,1,301
02	
0031,0035	216,301
02	
600,0035	219,301
02	
0036,0035	302,301

Another example of a command appearing in OCARIP1.DAT that came from Docket

No. MC96-3, PRC-LR-5, filename RC95RIP1.DAT is:

"1,217,18,304,308,601,602,604,701,702,703,704,705,706,707,708,709,710,711,712,713."

The command was updated in OCARIP1.DAT to be

"1,217,17,304,601,602,604,701,702,703,704,710,705,705,707,708,709,711,712,713." The

line of information can be translated from USPS library reference H-4, Member Name A

at 16. The code is as follows:

<u>Postal Service Command</u>	<u>PRC Translation</u>
04	Forming USPS component 0523 with 17
0523,0017	USPS components
0683	705
0639	711
0610	703
0684	709
0040	304
0043	601
0604	604
0044	602
0046	701
0047	702

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-45-52

<u>Postal Service Command (cont.)</u>	<u>PRC Translation (cont.)</u>
0048	704
0049	706
0050	707
0051	708
0052	710
0053	712
0054	713
02	
0032,0523 =	1,217,17,304,601,602,604,701,702,703,704, 705,706,707,708,709,710,712,712,713

The two examples provided above provide information on my understanding of two types of Postal Service "ripple" commands appearing in USPS library reference H-4, Member Name A at 10-39. In the first example, the Postal Service did not build a new component. In the second example, Postal Service component 523 was created as a composite of 17 other Postal Service components.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-45-52

USPS/OCA-T100-50. Please refer to your response to USPS/OCA-T100-25(b), where you state "I did not know what function the "nk" statement performed." Do you now know what function the "nk" statement performs? If so, please explain in detail.

A. No.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-45-52

USPS/OCA-T100-51. Please refer to your response to USPS/OCA-T100-25(d)3. The original question sought to confirm the status of pre-final program executions in this docket, as opposed to what could happen in the future. Therefore, in terms of the program executions of the OCA's cost model in this docket, please confirm that all program executions prior to the final one are lost and cannot be viewed in BY96LO.LR or elsewhere in OCA-LR-4.

A. Please note that the final Base Year printout is BY96LP.LR. Confirmed.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-45-52

USPS/OCA-T100-52. Please refer to your response to USPS/OCA-T100-25(f)3 containing the following statement: "[I]f I removed a statement and the program ran successfully, I assumed the component with a zero value generated the error message." Is it your testimony that the Commission's cost model's integrity is maintained if statements are removed to eliminate processing errors? If your response is anything other than an unqualified affirmative, please fully explain how integrity is maintained.

A. "The purpose of my testimony and library references OCA-LR-4, OCA-LR-6 and OCA-LR-7, ... is to explain the procedures I followed to update the Commission's version of the Postal Service cost model." OCA-T-100 at 3. I updated the Commission's cost model and successfully replicated Postal Service results. In my testimony and library references, I did not incorporate the Commission's costing methodology. Postal Service interrogatory USPS/OCA-T100-25(f)3 referred to a line of computer instructions I removed from the input file -- "1a,2279,2206,170,705,a." Following the logic I provide in the second paragraph of page 67 of OCA-LR-4, the line of computer instructions I removed would be interpreted as follows: (1) Multiply component 2206 by the factor in position number 170 of BY96CP.FAC; (2) The result of the calculation in (1) would then be distributed to component 2279 on the basis of the PRC component 705 distribution key. However, the distribution key, PRC component 705, has a value of 0. If the Commission's cost model attempted to execute that instruction, the computer would be told to divide by zero. Division by zero is an illegal operation. Consequently, a program error message results. I did not search further for

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T100-45-52

other problems, because I found the problem. Removing the line in question resolved the error message.

I am puzzled by your use of the term "integrity." Adding or deleting instructions to an input file only impacts the program to the extent that it provides the program with commands to execute. The program is not changed. The program's "integrity" has not been altered.

1 CHAIRMAN GLEIMAN: Does any participant have
2 additional written cross-examination for the witness?

3 [No response.]

4 CHAIRMAN GLEIMAN: There is none. Then we'll move
5 on with oral cross-examination. One party, the Postal
6 Service, has requested cross-examination of this witness.

7 Does anyone else wish to cross-examine the
8 witness? If not, Ms. Duchek, would you please begin.

9 Excuse me, Ms. Duchek.

10 MS. DUCHEK: Thank you, Mr. Chairman.

11 CROSS-EXAMINATION

12 BY MS. DUCHEK:

13 Q Good morning, Ms. Thompson.

14 A Good morning.

15 Q Would you please refer to your response to
16 interrogatory USPS OCA-T-100-2? Do you have that in front
17 of you?

18 A Yes, I do.

19 Q At the very beginning you state, and I'm quoting,
20 "In Docket No. MC-96-3 the Commission filed a copy of its
21 cost model in PRC-LR-5. The OCA's cost model is a copy of
22 the Commission's Docket No. MC-96-3 cost model. In this
23 docket two modifications to the Commission's cost model were
24 made."

25 You then ^{go}~~to~~ on to discuss those modifications and

1 then state, "No other modifications were made to the code."
2 Is it your testimony that this is still a copy of the
3 Commission's cost model?

4 A Yes, the original basis was the Commission's cost
5 model.

6 Q And is it your testimony that this is merely an
7 update of the Commission's cost model?

8 A Yes.

9 Q Would you now turn to your response to
10 USPS/OCA-T-100-3 subpart g?

11 A Okay.

12 Q Okay. I am in the second paragraph of the answer
13 to subpart G, several sentences in. And I will quote again,
14 you state, quote, "Due to the component numbering
15 limitation, numbers in segment 21 could vary from one docket
16 to another. I tried to maintain the PRC's numbering scheme
17 as much as possible, however, I did make some changes." End
18 quote. Do you see that quotation?

19 A Yes, I do.

20 Q Did the changes you are referring to there require
21 modifications to the code?

22 A Not that I am aware of, no.

23 Q With regard to the segment 21 component numbering
24 limitation, would this mean that intervenors who wish to use
25 the OCA model would have to make their own adjustments to

1 segment 21 in every case?

2 A Are you meaning in future cases?

3 Q Yes.

4 A Well, my testimony really is just addressing the
5 current case. If they were trying to use this in future
6 cases, I can't say what they would be doing because it would
7 depend on if the Postal Service made changes that require
8 changes in what I have presented.

9 Q Well, if the -- because of the segment 21
10 component numbering limitation, let's assume in a future
11 case that that component numbering limitation was exceeded
12 due to the Postal Service's presentation, then intervenors
13 would have to make their own adjustments to segment 21 in
14 the model that you have presented, is that correct?

15 A Not knowing what you are going to do in the
16 future, if and how that would impact how those results are
17 used, 21 -- segment 21 is used for distribution keys. It's
18 possible that you could use segment 22, or segment 23, so,
19 yes, in that situation, if you exceeded the '99 requirement,
20 yes, you might have to use segment 22 or segment 23.

21 Q Would you refer to your response to
22 USPS-OCA-T-100-5, please? Subpart A. And this would focus
23 on the first page, PRC component number 2177. Do you have
24 that in front of you?

25 A Yeah, I am just re-reading that section.

1 Q Okay. Let me know when you are ready.

2 A Okay. Thank you. Okay.

3 Q Are you aware that PRC component 2177 is a
4 summation of city carrier, special delivery messenger and
5 rural carrier components in the base year?

6 A Not having the different -- if you can hold on, I
7 have to check with -- which each one is.

8 Q That would be fine. Take your time.

9 [Pause.]

10 THE WITNESS: Would you mind repeating your
11 question now?

12 BY MS. DUCHEK:

13 Q Certainly. I asked if you were aware that PRC
14 component 2177 is a summation of city carrier, special
15 delivery messenger and rural carrier components in the base
16 year?

17 A That is correct.

18 Q Now, your response states, and I am quoting from
19 the very bottom of the first page of No. 5-A, "In
20 replicating FY '97 data, 2177 is reused as the international
21 mail distribution key." Did this change require
22 modifications to the code?

23 A Not to the Commission's cost model, no.

24 Q Would you turn now to your response to
25 OCA/USPS-5-100-19(b), please?

1 A Okay.

2 Q Do you have that in front of you?

3 A Yes.

4 Q Okay. I'm looking at the part where under "B"
5 you're stating that the correct line of instructions should
6 be "excess, 2171, 4, 301, 302, 303, 306." And then you go
7 on to say, "I am unable to justify the omission of component
8 306." Was the correct line of instructions used in the OCA
9 model?

10 A I believe so. What I did was go back and look at
11 what had been done in MC96-3 and I also looked at what was
12 in the Postal Service's library reference H-4 and I believe
13 the member name A into the section where I usually -- or I
14 would look for the segment or the SEG-3SR.FAC file and did
15 not see where I should have taken off the 306, therefore, I
16 assumed that I was incorrect.

17 Q I'm a little bit confused. So does that mean that
18 306 was used?

19 A It was not in my model.

20 Q So the correct instructions then weren't used in
21 your model?

22 A That is correct.

23 Q So if the correct instructions were not used in
24 your model, are the results of the model in error?

25 A I reran the results given the addition of the 306

1 in that file and the change is insignificant. It went from
2 a difference of the Postal Service's numbers from 124,000 to
3 177,0000.

4 Q Okay.

5 A Or 43,000.

6 Q And have you filed that revised run?

7 A No, I did not.

8 MS. DUCHEK: Could I ask ^{if} ~~of~~ counsel for the OCA
9 would present that as a library reference?

10 THE WITNESS: Do you want just the run? The
11 reason I did not resubmit everything was because if you've
12 noticed in all the printouts I've annotated each page where
13 it was -- where I compared with Postal Service information
14 and given the time constraints I didn't -- and the magnitude
15 of the difference I didn't feel it was necessary.

16 I'm more than happy to run that run and submit the
17 run without additional annotation if you'd like.

18 MS. DUCHEK: If that's possible and it wouldn't be
19 too burdensome to do.

20 MR. RICHARDSON: We would be happy to do that, Mr.
21 Chairman.

22 CHAIRMAN GLEIMAN: Thank you.

23 MS. DUCHEK: Thank you.

24 BY MS. DUCHEK:

25 Q Would you refer to your response to

1 USPS/OCA-T-100-24, please? And specifically subpart (c).
2 And in that response you confirmed that 48 percent of the
3 lines of the code for PESSA96P.FAC were changed; correct?

4 A Correct.

5 Q Is it your testimony that this still is a copy of
6 the Commission's model?

7 A The model has not changed, the input files have
8 changed.

9 Q The code has changed; correct?

10 A No, not the code, an input file.

11 Q Would you agree that that's a change in a program?

12 A No. I think you're -- it's not a change in the
13 program. Again, it's a change in an input file.

14 Q Assuming for the sake of argument and I fully
15 understand you don't agree that you have changed 48 percent
16 of the lines in a program, would this constitute a
17 modification to the program to such an extent that you would
18 consider it a new program?

19 A Our definition of "program" is different, I think.

20 I'm talking about an input file similar to a
21 document that you write. I haven't changed the word
22 processor that I'm using, I have changed the content of a
23 document. And I would liken it to that. It's not a change
24 in the program or a new program.

25 Q If 48 percent of the lines in an input file have

1 changed, would you consider that a new input file?

2 A It is a new input file.

3 Q Would you look at -- we're still on your response
4 to No. 24, except would you look at subpart D, please? And
5 there you state -- and I'm quoting -- I ran the updated
6 version of the Commission's cost model with copies of the
7 Commission's Docket No. MC96-3 files. When the results did
8 not replicate the Postal Service's data, I began comparing
9 the information provided in USPS-T-5 Work Paper A with the
10 information contained in the OCA factor files. I converted
11 Postal Service components into PRC component numbers and
12 edited the instructions in my factor files until the
13 instructions replicated the information provided by the
14 Postal Service in USPS-T-5 Work Paper A. I did not keep
15 copies of the intermediate printouts.

16 Isn't it true that your factor files are lines of
17 code?

18 A No.

19 Q Without copies of the intermediate printouts,
20 isn't it hard for anyone to tell exactly how much editing
21 went into updating the Commission's model?

22 A I did not edit -- the files that I've changed I
23 provide in OCA Library Reference 4, 6, and 7, and I
24 highlighted the portions that I changed. Those would change
25 or could change. If the Postal Service changes its

1 information from one docket to another, certainly those
2 input files would change. But I have not changed, other
3 than the changes I mentioned earlier in Library Reference 4,
4 the code.

5 Q Would you refer to your response to OC -- sorry,
6 USPS/OCA-T-100-25, specifically subpart B? And again you
7 state, and I'll quote, when I was writing OCA LR-4 I did not
8 know what ~~the~~ ^{the} function^NK statement performed. Therefore, I
9 removed the NK and LA statements to see what impact they had
10 on the updated cost model. No impact was noted. Therefore,
11 I deleted the two lines from the file.

12 Do you consider that deletion a change to the
13 code?

14 A No.

15 Q Without knowing the function the NK statement
16 performed, can you know what impact that might have in a
17 future docket?

18 A No, I wouldn't know what it would have impact in
19 future --

20 Q Does that mean then that in a future docket an
21 intervenor or anyone else who used the OCA model would have
22 to remove the NK statement and determine whether it had an
23 effect or not?

24 A My input files do not have it in there, so
25 therefore they wouldn't have to remove it.

1 Q So they have to add it back in to see if it had an
2 effect or not?

3 A Only if the Postal Service changes from one case
4 to another.

5 Q Would you refer to your response to
6 USPS/OCA-T-100-36?

7 Subpart C.

8 Do you have that in front of you?

9 A Yes, I'm just reading it.

10 Q Okay. Take your time.

11 A Go ahead.

12 Q And I'm specifically looking at the section where
13 you state -- and again I quote -- therefore, after several
14 attempts I found that adding the final NV lines allowed the
15 updated version of the Commission's cost model to more
16 accurately replicate the Postal Service data. I am unaware
17 of what cost effects occur in Components 215, 221, and 225.

18 Are you saying there that you reran several times
19 until you received results that you thought most closely
20 match the Postal Service's results?

21 A When I first ran without those NV statements that
22 you're referring to, my results were very close to the
23 Postal Service. However, in previous -- up to that point in
24 time I was very close, and I wanted to get closer. So, yes,
25 I added these statements and I got even closer.

1 Q And you added them without understanding whatever
2 cost effects might occur in Components 215, 221, and 225;
3 correct?

4 A Well, you're asking which costs -- in your
5 interrogatory you're asking me to say what cost effects
6 specifically are occurring, I believe. And it wasn't
7 necessary for purposes of my testimony to understand that.

8 Q Okay. Do you recall how many times you reran on
9 this particular problem the NV lines?

10 A No, I don't.

11 Q And you didn't keep documentation of this process?

12 A No.

13 Q Correct?

14 A That's correct.

15 Q Would you please refer to your response to
16 USPS/OCA-T-100-49, please? And I am looking at the part
17 where you begin -- let me find it.

18 It's about -- it's in the second paragraph, the
19 last sentence. "However, if a printout I generated did not
20 match the Postal Service data, I referred to USPS Library
21 Reference H4 member name A at 10-39." Keeping that in mind,
22 I want to talk about the manual input report. In OCA
23 Library Reference 4, I believe it is page 1-A, where it is
24 called Summary of Commission's Cost Model Changes.
25 Actually, it's not a page number, it's right at the very

1 beginning.

2 A The summary, yeah, I've got that.

3 Q Okay. Part 1-A, Summary of Commission's Cost
4 Model Program. You state in there that a SAS program, and
5 in parentheses it's (PREPROC.SAS), was developed to convert
6 the Postal Service's data file into a format that is
7 readable by the Commission's cost model programs. Are you
8 aware that in the Commission's model in Docket No. MC 96-3,
9 as represented in PRC LR 5, all of the manual inputs were
10 keypunched directly into the Commission's base year cost
11 matrix?

12 A I don't know that for a fact, but I believe that
13 is true.

14 Q Okay. Would you accept that subject to check?

15 A Yes.

16 Q So if that is the case, then your program,
17 PREPROC.SAS, and the conversion procedures associated with
18 it, are your work, solely the OCA work, and ^{they are} ~~their~~ additions
19 to the Commission's cost model?

20 A It's a separate program, yes.

21 Q Would you refer to your response to
22 USPS/OCA-T-100-10? Basically, in that answer, you are
23 confirming that there are a number of manual inputs that
24 required editing, correct?

25 A Correct.

1 Q In parts B and C, you are talking about
2 differences, and you say, quote, "I did attempt to find an
3 explanation for some differences I found," and you refer to
4 Witness Patelunes' response to OCA/USPS-T-5-3. You go on to
5 state, "Analyzing the differences was outside the scope of
6 my testimony. I accepted the Postal Service's numbers as
7 provided in USPS-T-5 Work Paper A, manual input requirement,
8 and edited the OCA's data file to agree with the Postal
9 Service's manual input data."

10 Are you saying there that if the SAS program did
11 not provide a replication of the Postal Service's manual
12 inputs, you did not analyze all of the differences and,
13 instead, you just typed in the Postal Service's amounts?

14 A I would like to make a clarification. I indicate
15 that this program was written by a former OCA staff member.
16 Whatever analysis he may have performed to analyze the data,
17 I am unfamiliar with. However, when I was given the file,
18 if it did not match, yes, I manually went into Base Year.Dat
19 and made the edit changes.

20 Q Thank you for the clarification, and I was just
21 asking about what you had done.

22 Would you turn to page 5 of your testimony?
23 Beginning at line 9, you are quoting a Commission statement
24 from Docket No. R84-1, which reads, quote, "The best way to
25 validate the assumptions and data inputs of such a complex

1 [Postal Service] model [is] to independently replicate each
2 series of calculations made by the model." end quote.

3 With that statement in mind, would you agree that
4 the goal of replicating a model, for example, the Postal
5 Service model, is to independently run a different model and
6 obtain the results produced by the Postal Service model?

7 A I would say that, independently, you are trying to
8 make sure that your model can be -- can replicate the Postal
9 Service's numbers.

10 Q Would you agree that, ideally, the two models
11 would be mutually exclusive? In other words, the initial
12 model, let's assume that's the Postal Service model, and the
13 model that you are building that is attempting to replicate
14 the Postal Service model.

15 A I hesitate to say yes because there are some
16 things that you are -- that that model is assuming for a
17 fact. For example, the information that is in the manual
18 input requirement. To regenerate that would be almost --
19 well, from my perspective, an impossible task.

20 Q What about after the manual inputs?

21 A For the most part, yes, replicating, having them
22 independent would be ideal.

23 Q So, ideally, after -- at least after the manual
24 inputs, the execution of one model should not be dependent
25 upon the execution of the other model?

1 A They are two different models, so that, yes, they
2 are not dependent. I will -- I preface that by saying that
3 I do know in my information I used some information outside
4 of the manual input requirement, it was in the factor
5 reports, I believe.

6 Q Would you please turn to your response to USPS
7 OCA-T-100-15?

8 Ms. Thompson, in the OCA model, do you get to your
9 knowledge any other inputs, what you call manual inputs from
10 anything other than the Postal Service's factor report or
11 manual input report?

12 A I believe I also get something from your A Report.

13 Q Thank you. If you'll give me just a minute, I
14 think I can skip some questions I was going to ask.

15 Would you now turn to your response to USPS
16 OCA-T-100-23, please.

17 A Okay.

18 Q Specifically sub-part (a). Am I correct that in
19 sub-part (a) you confirm that the development of the 59.301
20 percent proportion of higher level supervisor variable costs
21 occurs outside of the OCA model?

22 A I do know I produced a worksheet that does have
23 that calculation on it.

24 Q Okay. I believe that's pages 51 to 54 of your
25 Library Reference 4.

1 A Page 53 to 54.

2 Q So the results of the Postal Service's A Report,
3 that would be the fourth column on page 53 -- well, 53 and
4 54, are typed into the OCA cost model, correct?

5 A Are typed into the cost model? It's typed into
6 this EXCEL spreadsheet.

7 Q Right, which is then -- and which is used -- I'm
8 sorry, I misspoke, it's typed into the spreadsheet which
9 then derives the 59.301 percent which then is input into the
10 OCA model, is that correct?

11 A I don't know exactly. I would have to go back.
12 If I actually key in the 59 percent into the model, if that
13 is what you are asking, in the input.

14 I'm not sure how I used this one. I would have to
15 go back and look at it, but I do calculate this information
16 in a separate spreadsheet.

17 Q Right. Would you now turn to your response to the
18 USPS/OCA-T-100-38, please? I am specifically looking first
19 at subpart (b).

20 A Okay.

21 Q You're basically confirming in the response that
22 the OCA cost model shows minus 88,017 FY '97 total costs for
23 Component 2025, correct?

24 A Wait a second -- part (b) -- maybe I am confused
25 at what you are --

1 Q I'm sorry -- take a look at the entire response.

2 A To which part?

3 Q Part (g) -- I'm sorry part (g) rather than part
4 (b).

5 You were asked in the question to confirm that
6 Component 2025 shows minus 88,017 FY '97 total costs?

7 A Yes, I am confirming that -- that it is in 2025
8 and not 2026.

9 Q Correct -- and then you also confirm that 2025 is
10 the counterpart of Postal Service Component 896, is that
11 correct?

12 A Part (c)?

13 Q Yes. I'm sorry, I should have referred you to
14 part (c).

15 A Yes.

16 Q Okay. In part (k) you are confirming that the
17 Postal Service cost model shows zero FY '97 total cost for
18 Component 896, is that correct?

19 A 896 was zero in FY-97?

20 Q Yes, in the Postal Service model.

21 A Confirmed.

22 Q Okay. I'm a little bit confused how showing minus
23 88017 FY-97 total costs for OCA component 2025 replicates
24 Postal Service component 896 which shows a zero for the
25 FY-97 total costs.

1 A I'm keeping that -- keep recording it in my
2 documentation and when I do the roll forward in the EXCEL
3 model, I'm showing the appropriate location where it falls.

4 Q Where is the appropriate location?

5 A It should have been -- if I had had 2026 as they
6 point out in Part A of the response, A and B, that I had two
7 options at that point, to rerun everything and redocument or
8 to use 2025. And I chose to use 2025 because it was the
9 most expedient at that point in time.

10 Q So basically you're switching component
11 definitions in the interim year between the base year and
12 the test year is that --

13 A That's correct.

14 Q -- correct? Okay.

15 A Well, I don't think it's used in the base year,
16 but if it is, then that's correct.

17 Q And did you refer earlier when we were discussing
18 the zero cost for Postal Service component 896 versus the
19 minus 88017 FY-97 costs in the OCA model, did you refer to
20 the EXCEL model, or did I misunderstand?

21 A Well, when I kept rolling forward if in my
22 exhibits, if I needed to account for that in a separate
23 category, then that's where I would have taken it into
24 account.

25 Q In EXCEL spreadsheets?

1 A in the EXCEL spreadsheet.

2 Q Going back again to speaking about switching
3 component definitions in the interim year, would this type
4 of switch require that the code for subsequent years would
5 need to be modified to reflect the changes in component
6 numbering?

7 A The file "^{Rowcol.h}~~Polleall.H~~" might need to be changed if
8 the Postal Service maintained in that segment 26 components.

9 Q Would you look at your response to
10 USPS/OCA-T-100-39 please?

11 A Yes.

12 Q In Part A you're documenting the sources of the
13 individual volume mix amounts; correct?

14 A Correct.

15 Q And in Part B is it my understanding that you're
16 confirming that each of these amounts are input individually
17 into the OCA's cost model?

18 A When you say "individually" it's done as a pair of
19 DIDS commands.

20 Q But each separate amount is entered; is that
21 correct?

22 A Yes, I believe so.

23 Q Are you aware that all of the amounts from the
24 sources you cited in Part A of your response are generated
25 in the Postal Service's model by executing the control

1 strings that are listed in Part C and D of the question?

2 A No, I am not.

3 Q Ms. Thompson, I have a question about your revised
4 response to USPS/OCA-T-100-33, subpart (c). Does the
5 revision to your response mean that you include both the
6 volume mix and the work year mix adjustments in the file
7 VOLRIP1.DAT?

8 A I'm sorry, I am not following where you are
9 getting the VO --

10 Q It's in the preamble of the question, where we are
11 quoting page 12 of Library Reference 6.

12 A Right. Okay.

13 Q The last sentence of the question, or of your
14 quotation states "The VOLRIP1.DAT file is used to
15 incorporate the Postal Service's adjustments."

16 A Right. But you said part (c), I think.

17 Q Right. You have changed part (c).

18 A No, I changed part (b).

19 Q I'm sorry. I'm sorry, my mistake. Does your
20 revision to part B mean that you^{have} both the volume mix and
21 work year mix adjustments in the file VOLRIP1.DAT?

22 A I include the op codes 21 and 18, whatever they
23 stand for.

24 Q Would you please look now at your response to
25 USPS/OCA-T-100-52? And I am looking specifically at the

1 last paragraph where you state that adding or deleting
2 instructions to an input file only impacts the program to
3 the extent that it provides the program with commands to
4 execute, the program is not changed.

5 If you are saying that adding or deleting
6 instructions does not change a program, what is your
7 criteria for what would change a program?

8 A Going into the actual code of the program and
9 changing that code. An input file has no impact other than
10 to give instructions to a program.

11 Q Okay. What specific code are you talking about
12 there?

13 A The code LRCOST -- the LRCOST.C code, the cost
14 COSTMOD.C, PRINTMAT.C. The C programs.

15 Q I just have one final question, Ms. Thompson. You
16 have indicated in a number of your responses that you did
17 not keep a record of the time you spent constructing the OCA
18 model and attempting to replicate the Postal Service's
19 results. Do you have any estimate of the number of hours it
20 took you from start to finish of the project? And I am not
21 including there time spent writing your testimony, I am
22 simply talking about the time involved in constructing,
23 running and re-running the model until you were satisfied
24 with the results?

25 A I can't separate the two because I was writing

1 concurrently in many cases, or taking notes. So, I mean I
2 started this project as soon as the Postal Service filed its
3 case, and I was working on it up to December 24th, and that
4 included all the time, the writing and the replication.

5 MS. DUCHEK: Thank you. I have no further
6 questions.

7 CHAIRMAN GLEIMAN: Follow-up questions? No
8 follow-up questions from the bench?

9 [No response.]

10 CHAIRMAN GLEIMAN: No questions from the bench.
11 That brings us to redirect.

12 Would you like some time with your witness?

13 MR. RICHARDSON: Just a couple of minutes, Mr.
14 Chairman.

15 CHAIRMAN GLEIMAN: Certainly.

16 [Recess.]

17 CHAIRMAN GLEIMAN: Mr. Richardson?

18 MR. RICHARDSON: Mr. Chairman, we have no further
19 redirect.

20 CHAIRMAN GLEIMAN: If that is the case, then Ms.
21 Thompson, I want to thank you. We appreciate your
22 appearance here today and your contributions to our record.
23 And if there's nothing further, you're excused.

24 MS. DUCHEK: Mr. Chairman, if I could just ask, we
25 had earlier asked Ms. Thompson to provide an extra run and

1 rerun something --

2 THE WITNESS: Right.

3 MS. DUCHEK: And upon reflection, I -- we don't --
4 we're not interested in having that done. We feel sorry for
5 her. It would be too much work.

6 THE WITNESS: Gee, thanks. I appreciate that.

7 MS. DUCHEK: So we're not going to ask that that
8 be produced.

9 CHAIRMAN GLEIMAN: The tree huggers of the world
10 appreciate it, also.

11 That as I understand it relieves OCA of its
12 obligation to provide that run without all the documentation
13 that you were going to provide.

14 MR. RICHARDSON: We would not object to that
15 withdrawal of her request.

16 [Witness excused.]

17 CHAIRMAN GLEIMAN: I believe, Mr. McKeever, you
18 wanted to report on Mr. Luciani's availability.

19 MR. McKEEVER: Yes, Mr. Chairman. Mr. Luciani is
20 available on March 3, and he will hold himself available
21 until we get word as to whether he will appear that day or
22 some other time.

23 CHAIRMAN GLEIMAN: Well, we will hear from him on
24 the 3rd on his supplemental, and the question now that we
25 have, and we'll wait to hear back from Postal Service and

1 OCA, is whether they're willing to have Mr. Luciani also
2 provide his testimony on the other piece of evidence that he
3 submitted previously on that same day rather than the 25th,
4 as I recall.

5 Thank you, and we'll wrap that one up hopefully
6 tomorrow.

7 If there's nothing further, that concludes today's
8 hearing. We'll reconvene tomorrow, Wednesday, the 18th, at
9 9:30, when we'll receive testimony from Niagara Telephone
10 Company Witness Peterson, OCA Witness Willette, American
11 Bankers Association and Newspaper Association of America
12 Witness Clifton, and Witness Bentley, who will be offering
13 testimony on behalf of both Brooklyn Union Gas and the Major
14 Mailers Association.

15 I want to thank you all for your help this
16 morning, and stay dry this afternoon if possible. We'll see
17 you tomorrow.

18 [Whereupon, at 12:22 p.m., the hearing was
19 recessed, to reconvene at 9:30 a.m., Wednesday, February 18,
20 1998.]

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